STAFF REPORT

AGENDA NO: 5a

MEETING DATE: March 10, 2021

To: **Honorable Mayor and City Council**

Date: **March 10, 2021**

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

Subject: **Adoption of a Resolution Amending the FY 2020-21 Operating and Capital Budgets to Reflect the Recommended Mid-year Adjustments**

RECOMMENDATION

Staff recommends that the City Council accept the FY 2020-21 Mid-year Financial Summary and Five-Year Financial Forecast, and adopt the attached resolutions amending the FY 2020-21 operating and capital budgets to reflect the recommended mid-year adjustments.

BACKGROUND

This report summarizes the City's mid-year fiscal status by providing an analysis of anticipated revenues and expenditures in comparison to the current adjusted budget for the 2020-21 fiscal year. Revised forecasts incorporate final 2019-20 fiscal year results, year-to-date impacts of the ongoing pandemic on the City's operations and cash flow, and other data points that were not available when the budget was originally developed.

The budget development for fiscal year 2020-21 was significantly upended by the world-wide outbreak of a coronavirus in late February 2020, when staff was completing the mid-year report for FY 2019-20. The global response to the COVID-19 pandemic impacted every facet of life and greatly altered the economic landscape at the national, state, and local levels. Staff pivoted to develop a revised economic outlook for the City and amended the FY 2019-20 projections for the City's key revenue sources. Several of the City's key revenue projections were revised downward to more conservatively reflect the economic impact of the crisis. Amid much uncertainty, the revised revenue projections laid the groundwork for the current fiscal year's budget. In the end, the 2020-21 fiscal year budget utilized several short-term measures, including a judicious use of reserves, to lessen further impact to the City's General Fund operations. The deficit plan also prompted consideration of various long-term fiscal scenarios for the City's General Fund. As the fiscal effects of the pandemic-induced recession were likely to span well beyond the next budget year, the City proceeded with a moderate outlook for a subdued recovery, but prepared for the possibility of an extended economic down-turn in the coming years. The presence of reserves enabled the City to respond more deliberately to the longer-term repercussions of the global COVID-19 pandemic. Allowing the trajectory of the virus and its effect on the City's revenues to unfold, staff committed to more frequent financial updates than would be necessary in less financially turbulent times.

Unaudited results for the 2019-20 fiscal year were presented to the City Council on September 21st; the audited Comprehensive Annual Financial Report (CAFR) was presented in late

December, and an update of the current year's budget was presented at the Council's Goal Setting Session in January 2021.

The budget for fiscal year 2020-21 as adopted last year reflects a further decline of nearly $7.7 million in General Fund revenues, in addition to the revenue declines anticipated in the last fiscal year. With audited results for the 2019-20 fiscal year in hand, and two quarters of transactions recorded for the new fiscal year, staff has compiled an evaluation of the City's fiscal standings to date.

To the extent possible, trends or emerging items that were not included in the City's operating budget have been identified, and the budgetary impacts of these items have been assessed. In addition, this report notes changes in activities that have very little overall impact to the budget, but allow for better alignment with the City Council's current goals and departmental directives that have been altered to deal with the pandemic environment. Although the focus of the mid-year review is the City's General Fund, this report also provides an update for other funds where fiscal changes are noted. The attached budget resolutions are recommended so that the current budget will not only provide the proper funding needed to carry out the programs and activities anticipated through June 30, 2021, but will also more accurately reflect the financial condition of the City as it enters the FY 2021-22 budget process. Having the latest projections reflected in the current budget enhances the forecasting process and allows decision makers to have greater confidence in the information provided within the budget development framework. In addition, during this time of transition to a post-pandemic environment, the City may choose to adjust strategies for funding capital needs and long-term liabilities in favor of rebuilding General Fund reserves.

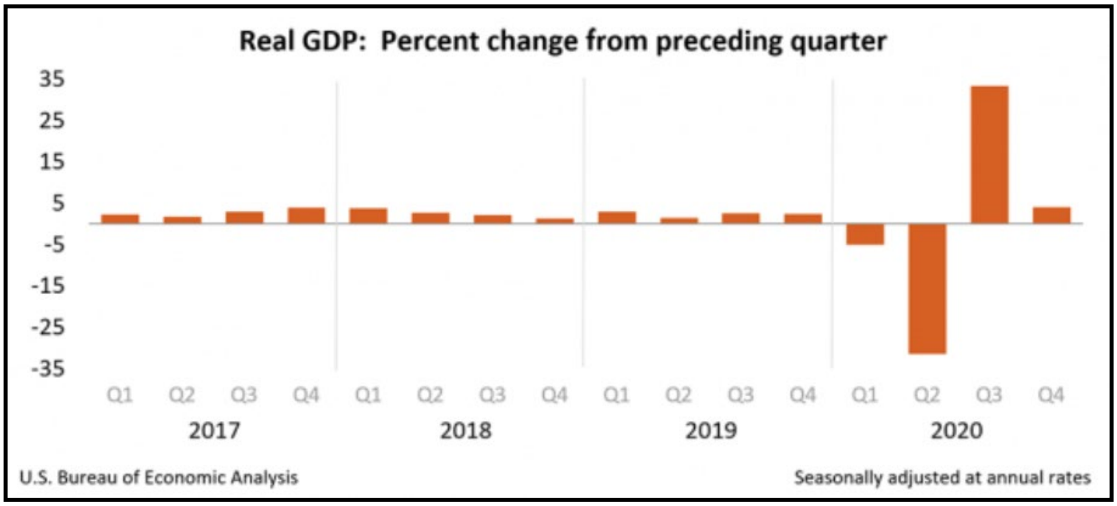
Considering current economic conditions and this most recent analysis of operations, staff has updated the assumptions and projections incorporated in the City's five-year financial forecast for the General Fund. This long-term forecast establishes an appraisal of fiscal sustainability beyond the current budget cycle, providing important context to the annual budget process.

DISCUSSION

Economic Conditions

National Economy

At the time the City's FY 2020-21 budget was being prepared, the national economy had gone from stable growth to a historic plunge of unknown depth. Even as plans evolved to ease lockdown restrictions, the pandemic was exacting an unprecedented toll on business activity, employment, and consumer spending nationwide and around the world. The first quarter of 2020 was historic, both for markets and for the world at large, as a local outbreak in late 2019 of a previously unknown coronavirus in the Hubei Province of China had morphed into a global pandemic. The disease caused by the virus, named COVID-19, had infected millions and led to tens of thousands of fatalities. In order to contain the virus and reduce the burden on healthcare systems, governments around the globe closed down meaningful portions of their economies—imposing travel restrictions, cancelling social gatherings and events, shuttering non-essential businesses, and even locking down entire cities. These measures caused an abrupt turnaround in the nation's economy, and most economists agreed that the U.S was facing its biggest economic crisis since the Great Depression nearly a centurey ago.



As shown in the chart above, GDP shrank significantly in the second quarter of 2020, but partially rebounded in the second half of 2020. In the end, U.S. real GDP decreased 2.5 percent in 2020, compared with an increase of 2.3 percent in 2019, with the most deceleration obviously seen in the second quarter. The contraction in GDP was not nearly as bad as most had predicted earlier in the year, perhaps due to unprecedented policy response from the federal government and the Federal Reserve.

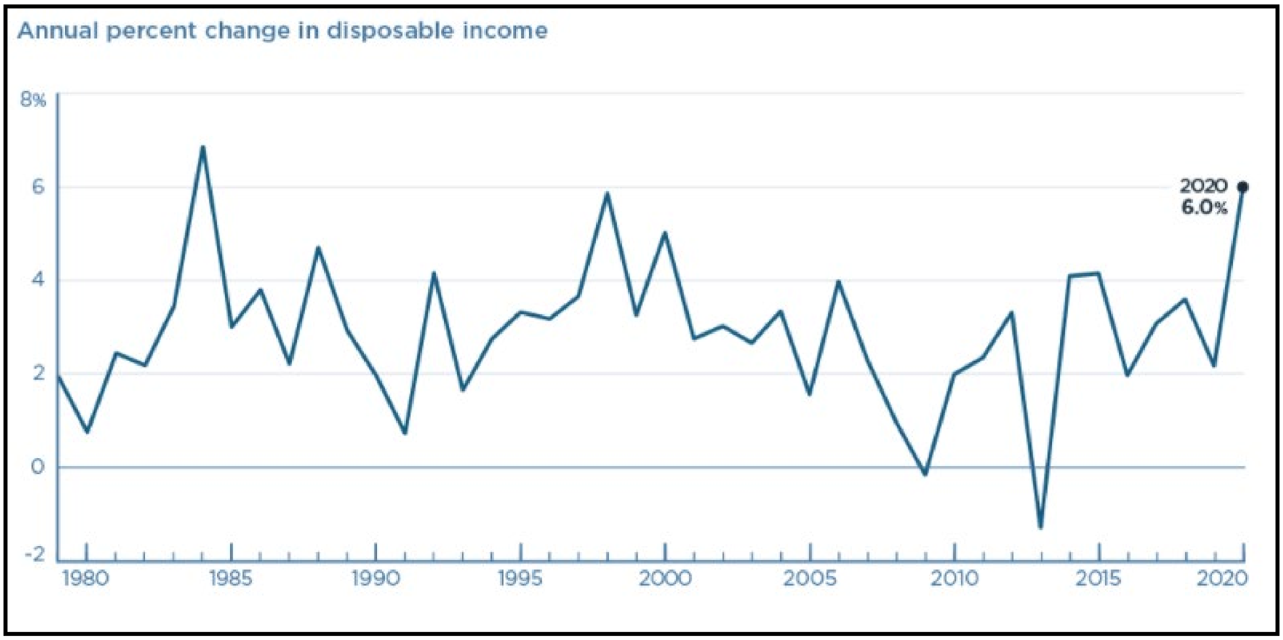
President Trump declared a national emergency on March 13th, and on March 27, 2020, Congress passed a bi-partisan $2 trillion coronavirus economic stimulus bill. This legislation was intended to provide relief for individuals and businesses that had been negatively impacted by the coronavirus outbreak. Among other elements, the bill featured direct payment to individuals of $1,200 ($2,400 to married couples), plus an additional $500 per child, for households with regular income of less than $150,000. The bill expanded unemployment insurance programs, making far more individuals eligible and providing greater benefits, to encourage Americans to shelter-at-home. The measure allowed employers to delay the payment of their portion of 2020 payroll taxes until 2021 and 2022. In addition, the bill removed certain barriers to the early withdrawal of individual retirement funds.

Small business relief was also included in the bill. $350 billion was dedicated to preventing layoffs and business closures while workers stayed at home during the outbreak. Companies with 500 employees or fewer that maintained their payroll while the pandemic-related public health restrictions were in place could receive up to eight weeks of cash-flow assistance. If employers maintained payroll, the portion of the loans used for covered payroll costs, interest on mortgage obligations, rent, and utilities would be forgiven. This was known as the Payroll Protection Program.

For its part, the Federal Reserve (the "Fed") spent the second quarter of 2020 mobilizing and refining its arsenal of emergency lending programs to provide liquidity and stabilize financial markets. The central bank left the target range for the federal funds rate unchanged at 0.00% to 0.25%. This added liquidity and low borrowing rate was intended to help offset or somewhat mitigate conditions caused by the ongoing public health crisis, such as unemployment and the possibility of near term inflation. (The Federal Reserve anticipates some inflationary pressures in the future ahead as the economy reopens.)

The Atlanta Federal Reserve, which tracks data in real time to estimate changes in gross domestic product, is now (as of March 1st) indicating a 10% gain in GDP for the first three months of 2021. (Generally, the GDPNow tool is volatile early in the quarter, then becomes more accurate as the data rolls in through the period.)

Real annual disposable personal income grew by 6.0 percent in 2020. This was entirely driven by increases in government benefits, without which income would have fallen 0.9 percent. While this is only a summary measure for the economy as a whole, a range of evidence suggests that lower-income households experienced, on average, even larger increases in disposable personal income than the average household. However, aggregate gains, even those concentrated among households at the lower end of the income distribution, mask the fact that many millions of households still fell through the cracks of government programs and faced considerable hardship over the course of the year.



Source: Bureau of Economic Analysis

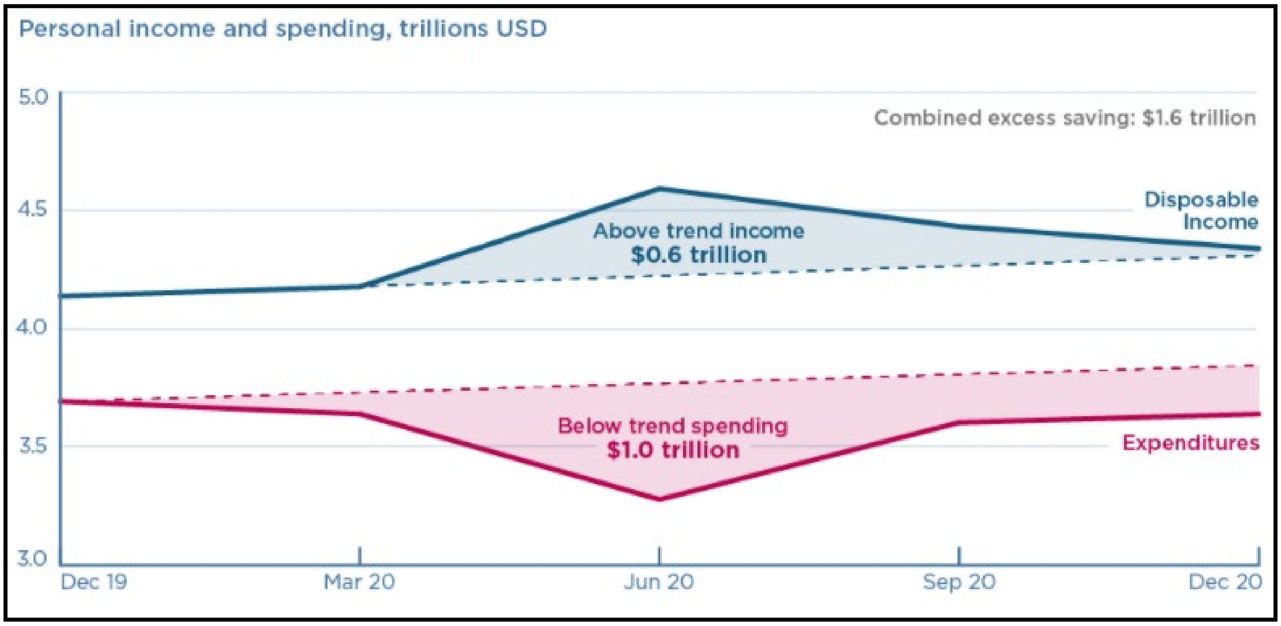
The large increase in disposable income meant that many households could largely maintain their purchasing power, but pandemic-related closures affected what they were able to buy. Durable goods consumption grew 12 percent over the four quarters of 2020 as households were able to spend out of their incomes and borrow at low interest rates to fund bigger purchases. In contrast, services, which make up about two-thirds of consumption, fell over the course of the year as the virus prevented much face-to-face activity.

Growth in consumption, 2020 (Q4/Q4 percent change)	
Durable goods	11.9
Motor vehicles and parts	*7.4*
Furnishings and durable household equipment	*8.9*
Recreational goods and vehicles	*21.4*
Nondurable goods	4.3
Food and beverage, off premises	*6.2*
Services	-6.8
Health care	*-4.5*
Transportation	*-25.1*
Recreation	*-32.9*
Food services and accommodations	*-21.3*
Total consumption expenditures	**-2.6**

The Federal Reserve's combination of a near-zero federal funds rate and substantial purchases of mortgage bonds drove mortgage rates to their lowest level on record, driving very strong growth in residential construction.

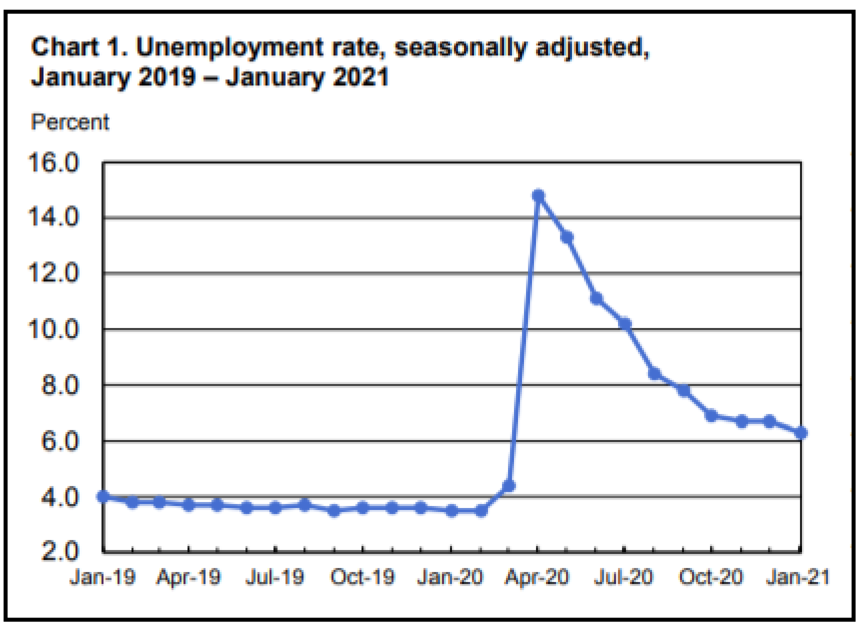
Source: Bureau of Economic Analysis

For all of 2020, disposable personal income was $0.6 trillion above trend, and consumption was $1.0 trillion below trend. As a result, the savings rate was 16 percent, well above the 7 percent average in recent years. This leaves households with an additional $1.6 trillion in additional savings. (Note these totals include only income flows, not the trillions of dollars of capital gains, which largely went to high-income households).



Source: Bureau of Economic Analysis

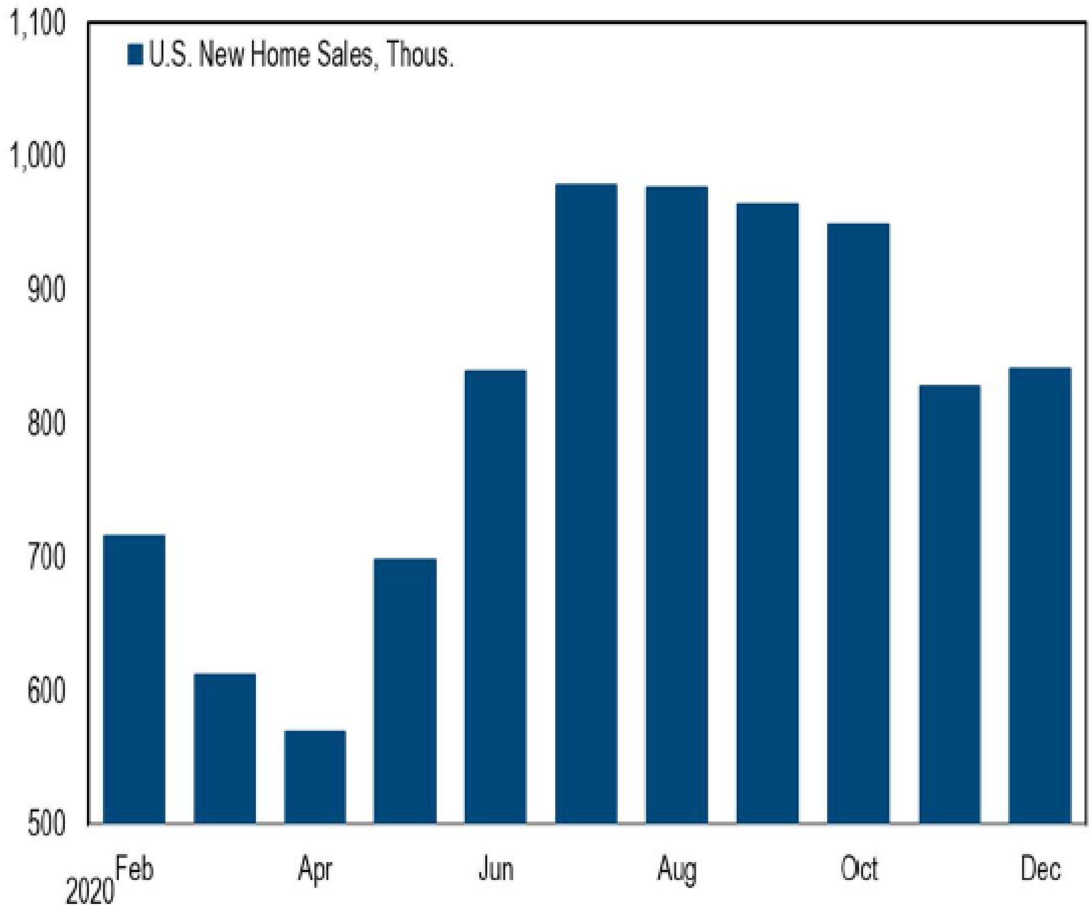
In April 2020, after governments shut down the economy, the US unemployment rate reached 14.7%, the highest since the Great Depression. Since then, it gradually improved as businesses have attempted to reopen safely, but the increase in COVID-19 cases in November and December led to renewed measures to control the virus, including additional business closures.



Source: [U.S. Bureau of Labor Statistics]

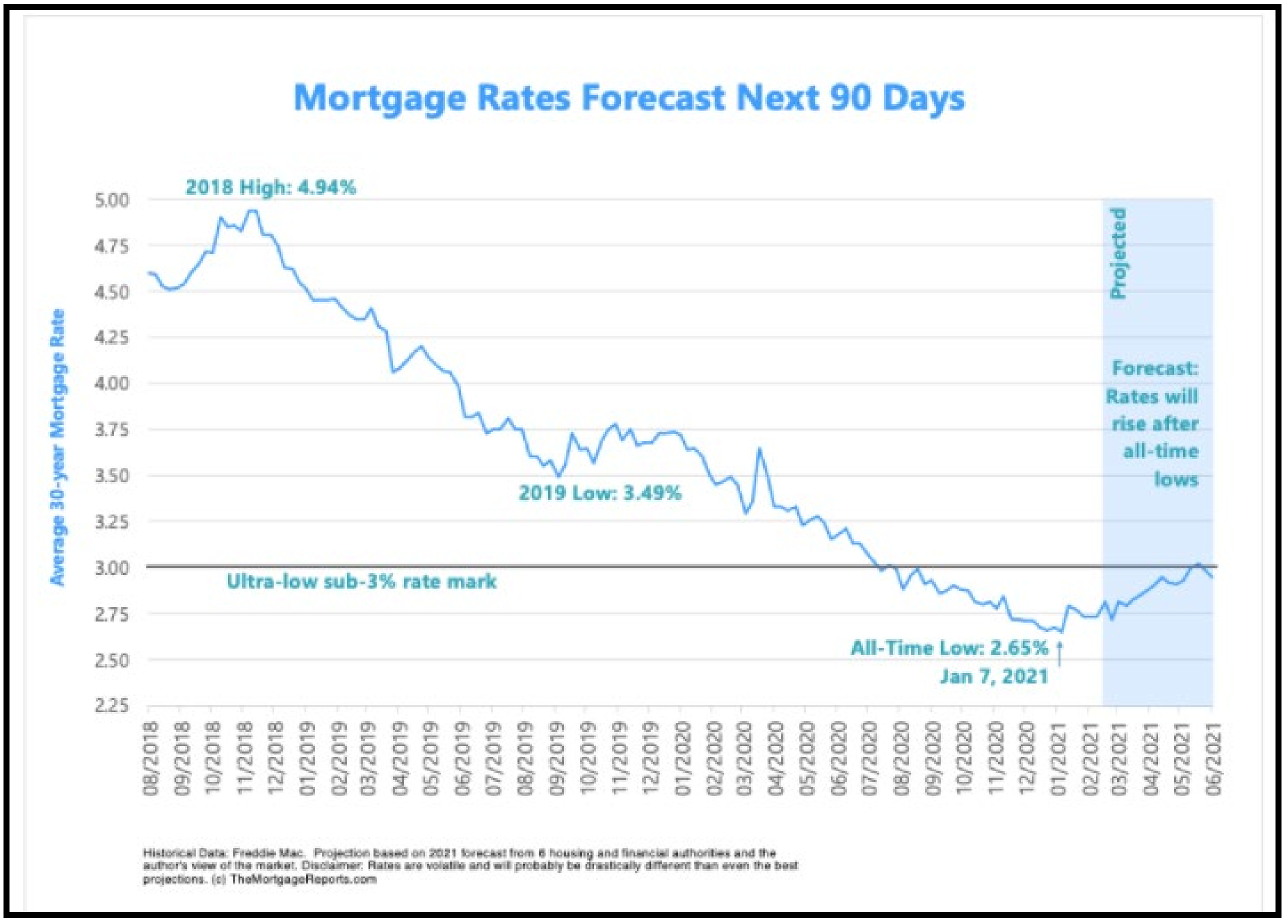
The US unemployment rate dropped to 6.3 percent in January 2021, down 0.4 percentage point from the previous month and well below market expectations of 6.7 percent, as the number of unemployed persons decreased to 10.1 million. Although both measures were much lower than their April 2020 highs, they remained well above their pre-pandemic levels in February 2020 (3.5 percent and 5.7 million, respectively). The Federal Reserve continues to estimate that the economy will return to a healthier 5.0% unemployment rate in 2021.

The number of Americans applying for unemployment aid continued to fall in February in a sign that layoffs may have eased, though applications for benefits remain at a historically high level. The latest figures coincide with a weakened job market that has made scant progress in the past three months, as the U.S. economy continues its recovery. With unemployment still elevated, the Biden administration is working on a plan to push through additional stimulus checks to Americans as well as enhanced compensation.



Source: National Association of Realtors/Census Bureau

With the Fed's quick and massive policy to prevent a recession, mortgage rates fell to below 3 percent starting in July 2020, spurring an increase in demand from both first-time and repeat buyers that saw existing home sales rise to their highest level since 2006. Most recently, demand for new homes surged 4.3% in January, confirming that the housing market remains one of the stronger sectors of the U.S. economy. But the lack of supply of homes, which was pushing up prices even before the pandemic struck last March, has left many prospective buyers discouraged.



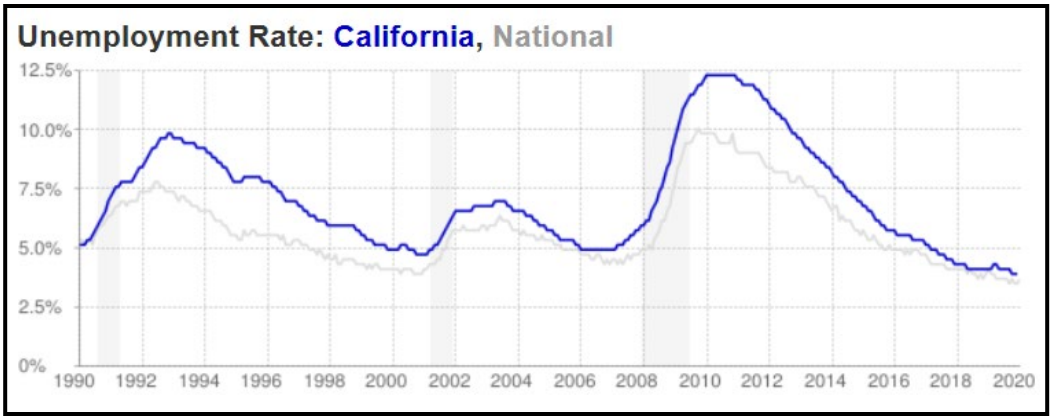
An unexpected rise in mortgage rates occurred in the second half of February, as the odds improved for an economic recovery. The $1.9 trillion coronavirus relief package is on its way through Congress, and vaccine production continued to ramp up, even as winter storms caused distribution delays across much of the country. While economists expect modest increases in home-loan rates this year, they likely will remain low while the Federal Reserve keeps interest rates near zero until the economy recovers.

The inflation rate is low, the unemployment rate is high. and the Federal Reserve isn't in a hurry to raise short-term rates. Given that combination of factors, additional upward movements in bond yields and mortgage rates is not anticipated.

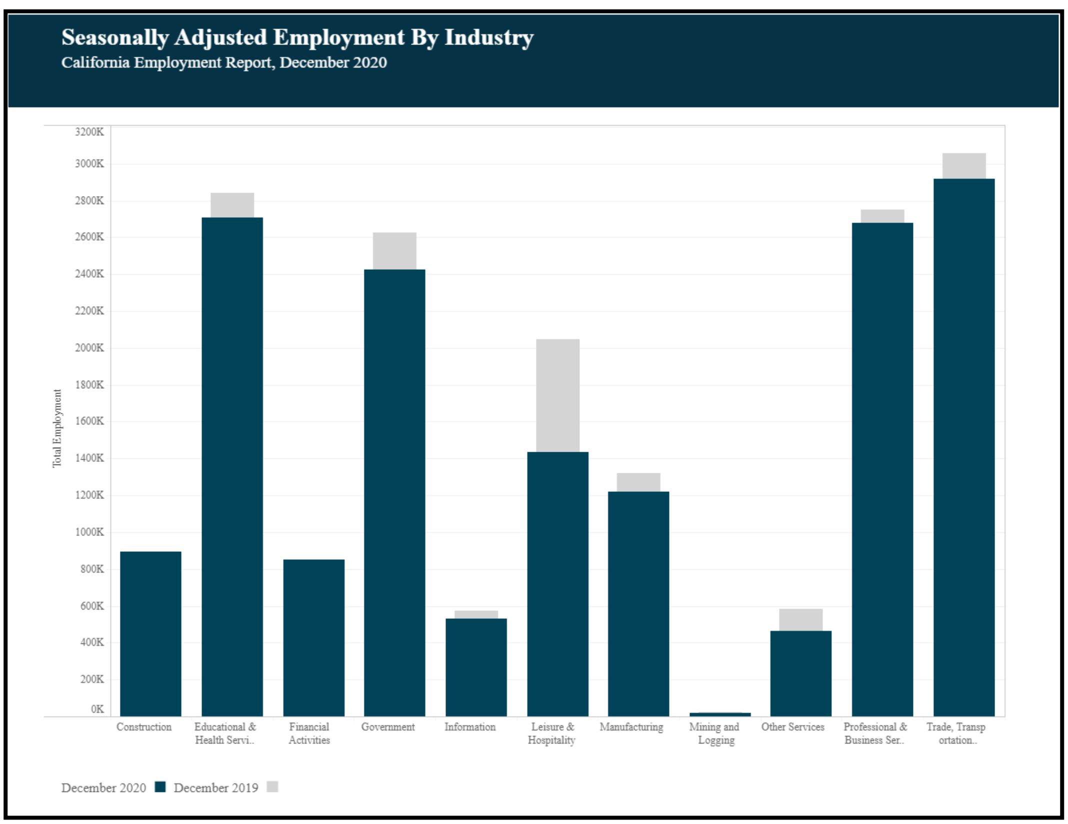
State Economy

At the time the FY 2020-21 was being developed last year, California saw its first reported case of COVID-19. “And that,” said Governor Gavin Newsom, “is when everything changed.” Unemployment, which had fallen to 3.9%, rapidly rose to 16.4%, and the budget surplus of $5.6 billion turned into a deficit of $54 billion. California’s economy continues to struggle through the COVID-19 pandemic, enduring on-again, off-again business shutdowns dictated by the Governor, but necessitated by data charting the spread of the virus. Importantly, the pandemic has disproportionately impacted Californians who were already struggling before the pandemic, exacerbating decades-long inequalities.

The state's jobless rate shot up to record-highs within weeks of the Governor's state of emergency declaration on March 4, 2020. Employment actually rebounded somewhat during the summer and autumn months as economic controls were loosened, although certain sectors such as tourism and travel continued to lag.

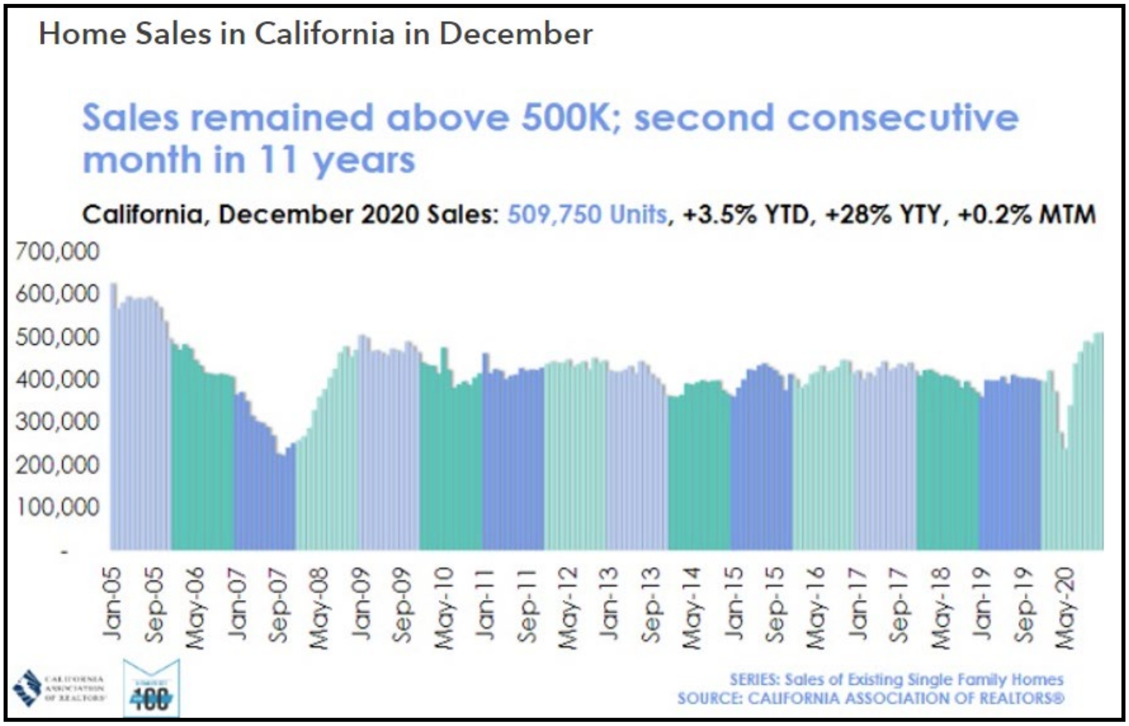


California's month-over-month unemployment rate increased from 8.1 percent in November 2020 to 9.0 in December, marking the state's first month-over-month rate increase since April 2020. As the spread of COVID-19 was rampant in the state's major population centers in early December, state-mandated business closures to contain the spread of the virus also came at the cost of jobs. California has regained slightly over 44 percent of the 2,615,800 nonfarm jobs that were lost due to the COVID-19 pandemic. As shown in the chart below, the Leisure and Hospitality industries suffered the largest in 2020, and led the payroll declines in December, ending the slow recovery that had been underway in the sector. For calendar year 2020, the sector saw a job decline of 30 percent.

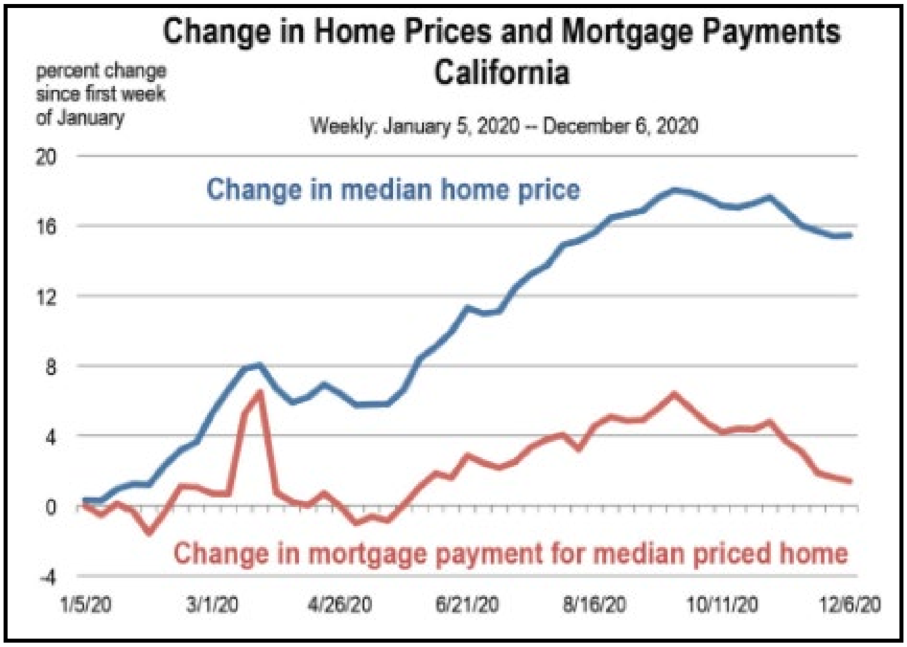


New California unemployment claims fell sharply in the last week of February, dropping below 100,000 for only the second time since government-ordered business shutdowns to combat the coronavirus began. Ultimately, however, any real improvement in the weak job market in California is unlikely to materialize until coronavirus vaccinations and herd immunity against the deadly bug coalesce into effective protection. Real improvement in the job market is going to be tied to controlling the pandemic."

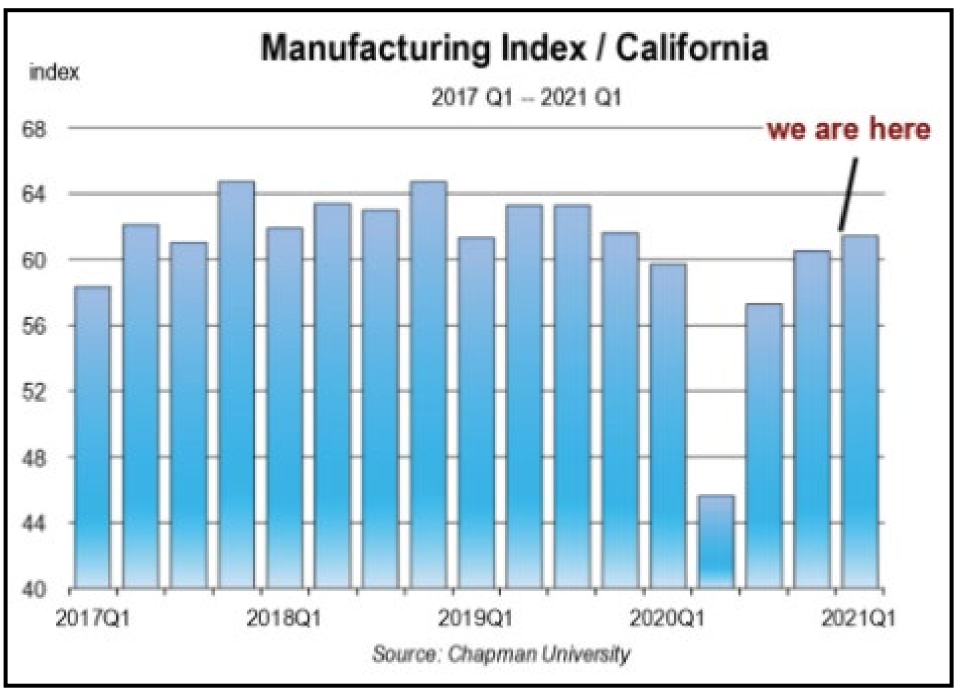
California's housing market continues to be the bright spot in the State's economy. It is a testament to the strength of the market that even after the pandemic effectively shut down the spring home-buying season in 2020, the market still was able to recover the substantial sales lost in the first half of the year and even top 2019's levels.



Growth of sales and prices are driven by low mortgage rates, buyers seeking more living space, and a perennial shortage of housing supply. Unfortunately, when it comes to inventory, there is more lost in affordable and modest-priced housing, year over year, than in the upper-level housing market."



Homebuilding and Infrastructure projects are underway throughout the state, generating a rapid recovery in construction activity. By this month or next, construction employment will have completely recovered from the precipitous decline caused by the pandemic in April, May, and June of last year. The state's manufacturing sector has now completely recovered.

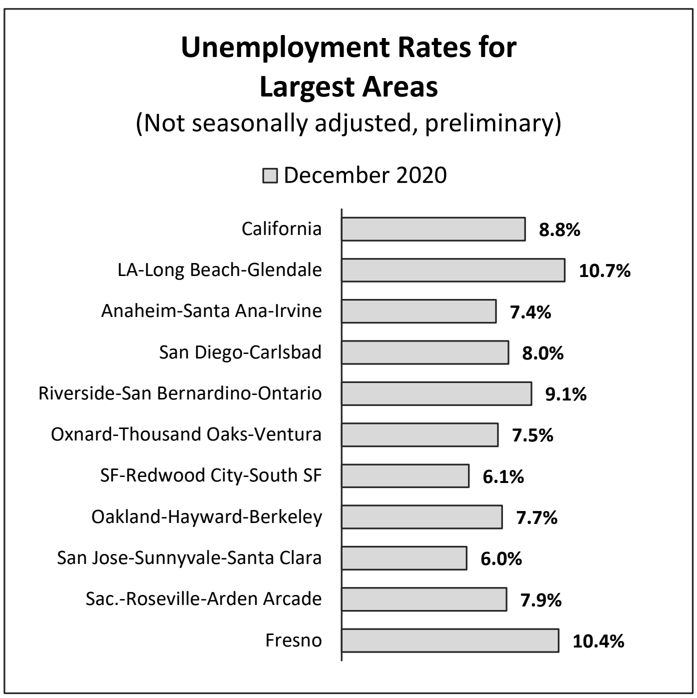


California's export trade in December nearly matched levels in December 2019, an indication that many of the things the state produces for the work, such as food and technology products, remain in high demand. The dollar continues to bounce around at exchange rates more favorable to American exporters than one year ago. Business restrictions will be gradually eased as clear evidence of fewer cases emerges in California this year. Economist believe that with growing rates of vaccination, most consumers will return to pre-pandemic behaviors, though some reticence toward high human contact activity will still characterize some consumers. Consequently, the travel and hospitality industry is not anticipated to recover quickly.

After almost a year of actively combating the COVID-19 situation, both through public health protocols and through financial support, the State may now be on the road to recovery. Prospects for the new fiscal year became brighter due to unanticipated income tax revenues from 2019. In Governor Newsom's proposed budget for FY 2021-22, distribution of vaccinations to all Californians is prioritized, as is providing direct relief to Californians facing job loss and eviction, supporting small businesses and investing in safety and equity in the State's education systems. The jury is out as to whether the Governor's recent school bill will actually accelerate students' return to campus — and the State's ability to execute its new vaccine strategy is similarly unclear. Success in both of these critical areas is necessary for a return to stability for California.

Local Economy

As prior to the pandemic, there continues to be a marked difference between the coastal counties and the inland counties in California in employment losses and recovery rates. With its emphasis on the tech sector, the San Francisco Bay Area economy continues to have some of the lowest unemployment rates in the state.



Although the Bay Area labor market recovery still has a ways to go, Beacon Economics is optimistic about the San Francisco Metropolitan Area (and urban areas in general), and opines, "With the distribution of vaccines imminent, the outlook for 2021 is strong." They added, "speculation about the demise of urban centers is greatly exaggerated."

That being said, the travel and hospitality industry is an important sector in the Bay Area, and as previously noted, this sector has been hit particularly hard by the pandemic due to global travel restrictions.

San Francisco metro area employment (number in thousands)	Dec. 2020	Change from Dec. 2019 to Dec. 2020	
		Number	Percent
Total nonfarm	2,270.5	-244.1	-9.7
Mining and logging	0.3	0.0	0.0
Construction	115.8	-9.9	-7.9
Manufacturing	128.4	-15.9	-11.0
Trade, transportation, and utilities	355.4	-30.3	-7.9
Information	120.8	-10.4	-7.9
Financial activities	150.3	2.0	1.3
Professional and business services	497.6	-11.8	-2.3
Education and health services	346.9	-22.4	-6.1
Leisure and hospitality	187.5	-98.3	-34.4
Other services	72.9	-15.3	-17.3
Government	294.6	-31.8	-9.7

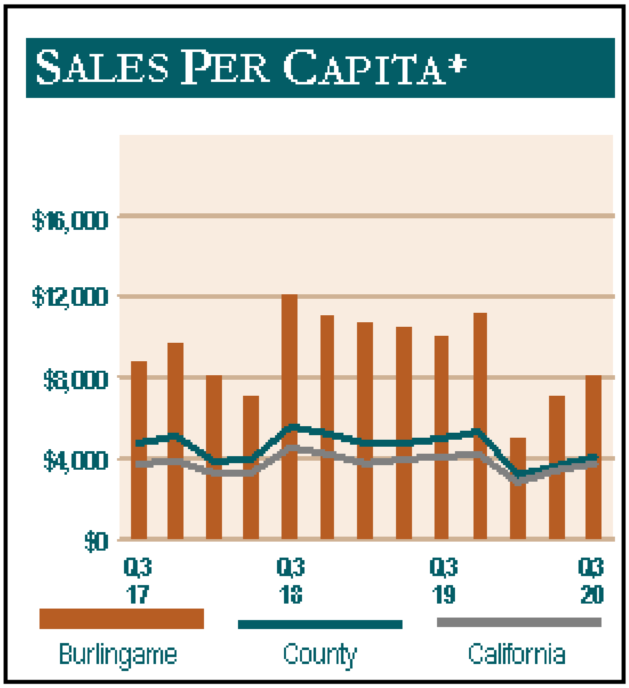
Source: U.S. BLS, Current Employment Statistics.

Because the San Francisco Metropolitan area is normally one of the United States' top tourist and business destinations, Burlingame has in the recent past seen strength in hotel tax revenues and consumer spending. However, the travel sector around the globe is taking a heavy hit as millions around the world have been ordered to stay put and avoid travel to reduce the spread of the virus. As it was a year ago, the duration of the impact of the COVID-19 coronavirus on the travel industry is unknown at this time. And as noted in the General Fund Revenue analysis (***Attachment A***), transient occupancy (hotel) tax revenues are very sensitive to the economy. Travel restrictions and other impacts of the coronavirus are expected to negatively impact tourism and the area's occupancy rates until vaccination distributions are very high and the public is again comfortable flying. In the meanwhile, business travel planners will favor destinations where there are fewer restrictions, and their reservations can be assured.

Trends in consumer spending are largely reflected in sales tax receipts. Burlingame sales tax receipts from July through September 2020 (the most recent data available) were 12.8 percent below the third quarter in 2019. However, this was the second full quarter impacted by the pandemic. Local point-of-sale receipts were down 21.7 percent compared to the same period the prior year. The City's restaurants declined 50.6%, with many eateries closed or only able to provide limited services as a result of the pandemic shutdowns. Fuel and service station receipts were also depressed as the cost of gas and overall consumption remains low (down 57.4%).

As an offset, the City's share of the countywide use tax pool allocations jumped 27.4% over the prior-year period. This gain was boosted by a combination of new taxes on out-of-state purchases from full implementation of AB147 (Wayfair), and surges in online spending tied to the pandemic crisis and use of federal stimulus funds by households.

In comparison, the Bay Area decline in sales tax revenues was only 5.8 percent. Burlingame's poorer performance may be attributable to the City's heavy reliance on hotel activity and the sales activity brought by tourists to its two downtown areas.



Economic Sustainability

Even with the positive economic trends of recent years, budgets have been developed with a relatively conservative approach. As can be seen with the current COVID-19 pandemic, some of the City's largest sources of revenue are highly volatile, inexorably linked to the health of the general economy and events that cannot be anticipated in the short term. In conjunction with the General Fund Reserve Policy, this conservative, long-term approach to the City's budget has helped ensure that economic downturns can be managed effectively. Rather than increase spending in years of budgetary surplus, the City took the opportunity to make progress in funding long-term pension liabilities and set aside additional funds in the Capital Investment Reserve for future infrastructure replacement and renewal projects. A strong reserve position has helped maintain the Burlingame's excellent credit rating, and has allowed the City to proceed confidently with major capital initiatives.

Also as a result of this long-term approach, the financial standing of the City remains relatively strong despite the difficult economic circumstances resulting from the pandemic. Results for the FY 2019-20 showed that the City's total revenues decreased $9.5 million over the prior year, and total expenses increased $4.1 million – $3.7 million in governmental activities (5.8 percent) and $0.4 million in the City's business-type activities (1.4 percent - largely comprised of the City's Water and Wastewater utilities operations). But the City's General Fund reserves were adequate to absorb the decline, as were its utility fund reserves. Conservative planning for FY 2020-21 allowed for both the maintenance of essential municipal services, and a continued funding of the City's long-term liabilities.

Although an emphasis on budgeting for the longer-term will provide more certainty for future budgets, the City cannot have a truly sustainable budget if unfunded liabilities are allowed to grow. The establishment of the Other Post-Employment Benefits (OPEB) trust account was a significant step in assessing unfunded retiree medical liabilities and systematically providing for them within the operating budget. As a result, the City's OPEB liabilities are nearly 43% funded, and is on-track to be fully funded in the next twelve years. In addition, the establishment of a § 115 trust fund (and a plan to annually fund the trust) in 2017 reflected the City's commitment to meet its growing pension obligations without burdening future operating budgets with unsustainable pension costs.

The General Fund five-year financial forecast is provided in the final section of this report. The forecast reveals the impact of the pandemic-induced recession on the City's reserves, and indicates shows that the recovery process will be more prolonged than initially predicted. Reserves and other various funding mechanisms will be examined in the coming months in the development of an effective operating and capital budget for the upcoming fiscal year and beyond.

In the meanwhile, construction of the new Community Center continues, funded by bond financing coupled with strategic use of the City's Capital Investment Fund. Other major capital projects that have emerged as priorities for Burlingame, though costly, are being pursued, along with appropriate funding mechanism such as federal grant funding. Enterprise operations and capital improvements continue, also with an emphasis on long-term planning. Staff will continue to identify capital and other unfunded needs, and recommend their systematic funding within the operating budget (of the appropriate fund) whenever possible.

General Fund

When the budget for FY 2020-21 was approved last year, the City was operating on the assumption that the worst of the pandemic would be over by December 2020. Now, as the City begins looking toward the next year's budget and COVID-19 continues to cast a cloud of uncertainty over the local economy, those seemingly conservative projections have proven to be optimistic. This mid-year analysis confirms that Burlingame's General Fund revenues will fall beneath expectations in the current fiscal year, due largely to the on-going challenges for area hotels and the resulting prolonged slump in the City's Transient Occupancy Tax (TOT) revenues.

Whereas the prior fiscal year contained four months of pandemic impact, this was to be a year of moderate economic recovery. The precipitous decline in economic activity in the spring of 2020 was followed by a considerable rebound in the summer of 2020. However, the recovery sputtered through the fall, and merchants who were anticipating a robust holiday season were left disappointed when the rates of the coronavirus infections and hospitalizations shot up in November and December. The State imposed further restrictions on business activity; those restrictions are now being gradually lifted. Some City revenues sources were able to recover to varying degrees. However, TOT receipts, which had toppled to around 16% of the levels recorded in the prior year, remained stagnant.

In the FY 2020-21 adopted budget, General Fund revenues were anticipated to be subdued – down 22 percent from the prior year's adopted budget, indicating a further 14.9 percent decline from FY 2019-20 actual revenues. While the budget was able to support continued funding of the City's underfunded pension and retiree medical programs, one-time strategies were employed to limit the draw on the General Fund reserves. For example, the plan for governmental capital improvement spending was curtailed, reducing the General Fund transfer to the Capital Projects Fund by $6.5 million. In addition, previously set-aside funds for Debt Service of 2019 Lease Revenue Bonds allowed for a $2 million reduction of the General Fund's obligation for FY 2020-21 debt service. Of course, no contribution to the City's Capital Investment Reserve was planned for the year. These contributions are typically funded through prior year or planned surpluses – the FY 2020-21 budget called for a $5.2 million decrease in GF balance.

Now, with more than half of the fiscal year of actual transactions under analysis, the City's year-end General Fund revenues are currently projected to be nearly $5.3 million lower than projected in the FY 2020-21 adopted budget. The reduction is the result of greatly impaired TOT revenues, which are now forecasted to come in at one quarter the level experienced in FY 2018-19. The $6.5 million decrease in the TOT revenue budget accompanied a $600,000 drop in Charges for City services, largely from curtailed recreation program offerings. Sales taxes revenues, however, have fared nearly $2.6 million better than anticipated. Details of the City's General Fund Revenue analysis at mid-year are provided in ***Attachment A*** of this report.

Departmental expenditure budget revisions are discussed in more detail in ***Attachment B*** of this report. The adjustments reflect an attempt to adjust certain departmental budgets in response to significant but unanticipated variability in programs and services resulting from the pandemic and to more accurately reflect current needs in general. The resulting departmental budgets should provide a clearer fiscal picture of operations for the remaining four months of FY 2020-21. This is particularly important in establishing the framework for the FY 2021-22 budget, where funds needed for continued service levels will be considered in the context of reduced municipal revenues and the City's long-term fiscal sustainability.

General Fund - Revenues

The following table shows the mid-year assessment of fiscal year 2020-21 General Fund revenues. There are three columns for the 2020-21 fiscal year: The "FY 20-21 Current Budget" column shows the revenue budget that the City Council adopted last June, and budget amendments approved by the City Council since that time. The "FY 20-21 New Projection" column shows the most current projection for the fiscal year, while the "FY 20-21 Budget Amendment" column reflects a summary of proposed revenue amendments to the FY 20-21 budget for the City Council's approval with this Mid-year Report. For comparison purposes, the table also includes the City's actual General Fund revenues in fiscal year 2019-20, as well as figures for the previous fiscal year. Year-to-date revenues are not included here as the timing variability within each different category greatly complicates the analysis and would make for a confusing presentation as a whole. However, year-to-date receipts were part of the mid-year analysis and may be discussed in the various categories of revenue as they relate to a revised FY 2020-21 projection.

CITY OF BURLINGAME, CA
SUMMARY OF GENERAL FUND REVENUES

	FY18-19 Actuals	FY19-20 Actuals	FY20-21 Current Budget	FY20-21 New Projection	FY20-21 Budget Amendment	Adjustment Up (Down) %
Property Tax	$ 21,955,938	$ 23,304,402	$ 25,136,000	$ 24,659,000	$ (477,000)	-1.9%
Sales and Use Tax	17,819,970	14,803,365	12,000,000	14,570,000	2,570,000	21.4%
Transient Occupancy Tax	29,384,461	20,416,543	14,000,000	7,500,000	(6,500,000)	-46.4%
Other Taxes						
Franchise Tax	1,657,802	1,661,397	1,641,200	1,561,800	(79,400)	-4.8%
Business Licenses	1,039,154	879,013	730,000	680,000	(50,000)	-6.8%
Real Property Transfer Tax	476,852	534,517	400,000	500,000	100,000	25.0%
State HOPTR	59,592	59,000	60,000	61,000	1,000	1.7%
Licenses & Permits	84,610	98,904	78,200	71,200	(7,000)	-9.0%
Fines, Forfeitures and Penalties	1,255,675	793,281	560,000	650,000	90,000	16.1%
Use of Money & Property	179,055	101,996	80,000	180,000	100,000	125.0%
Charges for Services	6,282,169	5,471,234	5,007,000	4,406,900	(600,100)	-12.0%
Other Revenue	59,071	81,033	30,000	32,500	2,500	8.3%
Federal COVID Relief Fund	0	0	371,871	371,871	0	0.0%
State Subventions	211,117	177,563	143,000	162,500	19,500	13.6%
Interest Income	4,071,886	3,775,609	1,563,000	1,508,000	(55,000)	-3.5%
Total, General Fund Revenue	**$ 84,537,352**	**$ 72,157,856**	**$ 61,800,271**	**$ 56,914,771**	**$ (4,885,500)**	**-7.9%**

The key factors that pertain to staff's recommended adjustments to each of the City's General Fund revenue categories are discussed in ***Attachment A*** of this report. The amended forecast for the City's largest revenue sources (Property Tax, Sales Tax, and TOT) is not only based on the previous year's receipts, which included nearly four months of pandemic-related losses, but also on the status of the local economy as reflected in cash receipts for the current fiscal year. Although some recovery is indicated in the City's Sales Tax revenues, the City's top revenue source of recent years – Transient Occupancy Tax receipts from area hotels - is not recovering as quickly as the pandemic lingers on. Other hard-hit revenues include Charges for Services, with continued obstacles to programming of Parks and Recreation activities. However, the limited offerings available in this area also allow some offsetting budgetary savings on the expenditure side. In total, the recommended adjustments equate to a 7.9 percent decrease in General Fund revenues when compared to the FY 2020-21 adopted budget.

Note that FY 2019-20 actual amounts are taken from the City's Comprehensive Annual Financial Report and therefore reflect interest income adjusted for an unrealized gain in the City's investment portfolio at the fiscal year end. The adjustment is required by governmental accounting standards, but it creates large variations from year to year in the amount of interest income reported. As explained in Attachment A, the budget for this line item assumes no change in the market value of the City's portfolio as this measure is difficult to anticipate and does not adequately reflect the City's true return on investments. Not taking into account the FY 2019-20 year-end mark-to-market adjustment increase in interest income (approximately $2.0 million in the General Fund), the anticipated decrease in FY 2020-21 General Fund revenues compared to the prior year is approximately 19 percent.

Coronavirus Relief Funds – Through the Coronavirus Aid, Relief, and Economic Security (CARES) Act of 2020, the City received nearly $372,000 early in the current fiscal year in reimbursement for costs incurred in managing the pandemic response. This aid package set aside roughly $150 billion for state, local, and tribal governments based largely on population; the funds were distributed from the State's Coronavirus Relief Fund (CRF). Funding could be used only to reimburse local governments for expenditures incurred due to the COVID-19 public health emergency. The City recorded over $1.2 million in qualifying costs as of December 31, 2020.

On January 14, 2021, President-elect Joe Biden announced the $1.9 trillion American Rescue Plan, an emergency legislative package to fund vaccinations; provide immediate, direct relief to families bearing the brunt of the COVID-19 crisis; and support struggling communities. The plan includes $350 billion in Coronavirus State and Local Fiscal Recovery Funds, with $130.2 billion (since paired down to $120.2 billion) to be divided evenly between cities and counties. Unlike prior relief funds, eligible "expenditures" will include replacement of revenue lost, delayed, or decreased as a result of the pandemic. The House Oversight and Reform Committee released direct funding estimates on February 10th; the City of Burlingame would receive an estimated direct allocation of over $5 million. Although not included in this mid-year analysis, these funds will be reflected as grant funding for financial statement purposes should they materialize. The House of Representatives passed the bill on February 27th; it is now pending in the Senate. Staff is hopeful that some form of the coronavirus relief bill will be passed by mid-March, at which time the City's revenue budget can be amended to reflect the additional federal revenues.

General Fund - Expenditures

The following table shows the mid-year assessment of FY 2020-21 General Fund expenditures by critical service area:

CITY OF BURLINGAME, CA
SUMMARY OF GENERAL FUND EXPENDITURES

	FY18-19 Actuals	FY19-20 Actuals	FY20-21 Current Budget	FY20-21 New Projection	FY20-21 Budget Amendment	Adjustment Up (Down) %
By General Fund Program						
General Government	$ 5,513,693	$ 6,482,228	$ 7,118,647	$ 7,075,747	$ (42,900)	-0.6%
Public Safety	27,758,430	28,683,268	30,157,969	30,581,070	423,101	1.4%
Public Works	5,934,117	5,987,479	7,073,458	7,258,558	185,100	2.6%
Community Development	1,709,736	2,197,979	2,645,968	2,629,668	(16,300)	-0.6%
Leisure & Culture	14,847,131	14,854,509	16,459,637	14,899,752	(1,559,885)	-9.5%
Total Expenditures	**$ 55,763,107**	**$ 58,205,462**	**$ 63,455,679**	**$ 62,444,795**	**$ (1,010,884)**	**-1.6%**

Again, there are three columns for fiscal year 2020-21. The "FY 20-21 Current Budget" column shows the budget that the City Council adopted in June 2020 and budget amendments approved by the City Council since that time. Departmental budgets were also internally adjusted for encumbrances of the prior fiscal year, but these amounts are not included in this analysis. The second FY 2020-21 column shows the new mid-year projection for each program area's current-year expenditures. The third FY 2020-21 column shows the resulting proposed amendments to the FY 2020-21 adjusted budget to reflect additional resources required (or anticipated operational savings) by departments for the remaining fiscal year. For comparison purposes, the table also includes the City's General Fund actual expenditure performance in fiscal years 2018-19 and 2019-20. All departments experienced budgetary savings (positive expenditure variances) within the

General Fund in fiscal year 2019-20, resulting in expenditures of $5.8 million (roughly 9.1 percent) less than budgeted for the fiscal year. Since local government expenditure budgets (appropriations) serve as the legal level of budgetary control, some level of savings will be realized in any fiscal year. Although departmental budgets were analyzed for both underfunded operating needs *and* anticipated budgetary savings, the focus was on ensuring budget adequacy for General Fund operations for the remainder of the fiscal year.

Major expenditure adjustments were needed to adjust personnel costs both up and down: the budget for Police overtime was increased to account for the additional downtown security detail on Burlingame Avenue (these costs were offset by service revenue); part-time salaries were reduced in the Library and Park and Recreation departments. Adjustments were also made to correct for an over-estimation in health care benefit costs. The budgets for contracts, supplies, and materials were reduced for recreation programs that had to be eliminated or operated at reduced capacity during the pandemic (reflected in reduced revenues).

Only minor adjustments are needed in the mid-year budget resolution to increase the Transfers Out of the General Fund in fiscal year 2020-21, reflecting increases ($54,000) in two capital project budgets as explained in the discussion of the Capital Projects Fund. Other expenditure budget adjustments requested by staff are merely to rearrange departmental budgets within categories to better reflect the current needs of the department. For example, the category of “operating costs” includes supplies and materials, various types of contracts, office expenses, dues and training, among other accounts. Departments may have also taken the opportunity to shift budgets between programs. These changes are not discernable at the summary level but are important in analyzing the cost of various programs. The adjustments provide a more accurate picture of actual expenditures for the year and a more solid base for future budgets.

Again, additional budgetary savings are a certainty, because the expenditure budgets reflect the upper limit of spending levels for each department. Departments are only able to expend or commit funds up to this legal level of budgetary control. Because these budgetary controls are established within each category of departmental expenditures, budgetary savings tend to average 3-5 percent of the annual expenditure budget. The City may experience larger variances, especially in the area of personnel costs, in years when there are a high number of position vacancies. Currently, the vacancy rate for permanent staff is not high, and the use of part-time staff has been reduced since the beginning of the pandemic. It is anticipated that the City will experience budgetary savings in the departmental budgets in the range of $3 - $4 million in the current fiscal year.

Proposed revisions to General Fund Expenditure Budgets are explained in greater detail in ***Attachment B***.

General Fund Operating Summary

A summary of the impacts to the General Fund of the adjustments made as a result of this mid-year analysis is shown in the schedule below:

CITY OF BURLINGAME, CA
GENERAL FUND OPERATING SUMMARY

	FY18-19 Actuals	FY19-20 Actuals	FY20-21 Current Budget	FY20-21 New Projection	FY20-21 Budget Amendment
Total Revenue	$ 84,537,352	$ 72,157,856	$ 61,800,271	$ 56,914,771	$ (4,885,500)
Expenditures					
Departmental Expenditures	(55,763,107)	(58,205,462)	(63,455,679)	(62,444,795)	1,010,884
Transfers to Debt Services	(4,684,811)	(4,708,763)	(2,728,338)	(2,728,338)	0
Transfers to Capital Project Fund	(10,934,000)	(9,485,000)	(3,155,000)	(3,209,000)	(54,000)
Other Transfer In (Out)	2,640,137	2,400,319	2,573,550	2,573,550	0
Total Expenditures	(68,741,781)	(69,998,906)	(66,765,467)	(65,808,583)	956,884
Net Operating Surplus (Deficit)	15,795,571	2,158,950	(4,965,196)	(8,893,812)	(3,928,616)
Transfer to Capital Investment Reserve	(3,000,000)	(6,500,000)	0	0	0
Change in General Fund Balance	**$ 12,795,571**	**$ (4,341,050)**	**$ (4,965,196)**	**$ (8,893,812)**	**$ (3,928,616)**

Adjusted by the recommended amendments in this report, the General Fund shows an $8.9 million projected deficit (negative net operating revenues) for fiscal year 2020-21, a significant decline in financial position from the $5.2 million deficit estimated when the budget was adopted last June.

General Fund Balance

Once all the mid-year adjustments are posted, the General Fund shows a projected total fund balance of just over $35.9 million at the end of the 2020-21 fiscal year.

CITY OF BURLINGAME, CA
CHANGES TO GENERAL FUND BALANCE

	FY 2020-21 Current Budget	FY 2020-21 New Projection
Beginning Fund Balance (audited)	$ 44,826,701	$ 44,826,701
Projected Revenues & Expenditures		
Projected revenues	61,800,271	56,914,771
Projected departmental expenditures	(63,455,679)	(62,444,795)
Subtotal, Revenues Net of Expenditures	(1,655,408)	(5,530,024)
Transfer to Debt Service	(2,728,338)	(2,728,338)
Transfer to Capital Project Fund	(3,155,000)	(3,209,000)
Other Transfers In (Out) of General Fund	2,573,550	2,573,550
Transfer to CIP Renewal & Replacement Reserve	0	0
Ending Fund Balance (Projected)	**$ 39,861,505**	**$ 35,932,889**

Note that, at the time the current-year budget was adopted, the ending General Fund balance was projected to be $32.4 million at June 30, 2021, based on the $37.6 million *budgeted* fund balance at the end of FY 2019-20. However, due to lower-than anticipated revenue losses and significant departmental expenditure savings, the General Fund deficit for the year was limited to $4.3 million, and actual fund balance as of June 30, 2020 was $44.8 million.

As shown below, the budget deficit for the current fiscal year is most apparent in the decreased *unassigned* fund balance – a $5.9 million decrease is anticipated. The Economic Stability Reserve will experience a $5.2 million decrease based on decreased revenues, in accordance with the City's General Fund Reserve Policy. Restricted fund balance, reflecting General Fund contributions to the § 115 Pension Trust Fund, will increase by $2.25 million.

CITY OF BURLINGAME, CA
GENERAL FUND BALANCE ASSIGNMENTS

	FY18-19 Actual	FY19-20 Actual	FY20-21 Adopted Budget	FY20-21 New Projection
Economic Stability Reserve	$ 18,837,000	$ 18,905,000	$ 14,743,000	$ 13,660,000
Catastrophic Reserve	2,000,000	2,000,000	2,000,000	2,000,000
Contingency Reserve	500,000	500,000	500,000	500,000
Subtotal, Assigned Fund Balance	21,337,000	21,405,000	17,243,000	16,160,000
Add: Restricted for Pension Trust Fund (PARS)	7,459,442	10,823,849	12,666,442	13,073,849
Add: Investment Mark-to-Market	792,703	2,003,217	0	2,003,217
Add: Unassigned Fund Balance	19,578,606	10,594,635	2,524,167	4,695,823
Total, Ending Fund Balance	**$ 49,167,751**	**$ 44,826,701**	**$ 32,433,609**	**$ 35,932,889**

As of June 30, 2021, the General Fund's projected fund balance of $35.9 million represents 54.6 percent of General Fund operating expenditures of $65.8 million. Because $13.1 million is restricted for pension benefits through the § 115 Trust Fund, a better measure of coverage may be that the unrestricted fund balance of nearly $22.8 million equates to 34.7 percent of the fund's operating expenditures. This is well below prior-year expenditure coverage, especially when one considers the inclusion of the June 30, 2020 "Mark-to-Market" gain on the City's investment portfolio as part of the fund balance. (This amount varies widely, and because the significant amount appears as a revenue adjustment that is not within the City's control, it has been isolated in the table of General Fund Balance components above.) The City's General Fund Reserve Policy and resulting reserve target was based on an assessment of the City's revenue volatility and infrastructure risks, as well as the possibility of extreme events, in establishing a reserve target specifically for the City of Burlingame. As such, the Council's reserve management strategies reflect best practices in public finance. Once funded according to the policy, the City's reserves (nearly $16.2 million) comprise the largest portion of the General Fund's ending balance, an amount equal to 28.4 percent of projected General Fund revenues for the year. The reserve policy calls for an Economic Stability Reserve of 24 percent of budgeted revenues, a Catastrophic Reserve of $2 million, and a $500,000 Contingency Reserve. Excluding the "Mark-to-Market" amount, this leaves an unassigned fund balance of less than $4.7 million.

In the past, the City Council has been comfortable with a $9-10 million unassigned fund balance for the General Fund; available funds in excess of this amount were best transferred (if not to the

Capital Investment Reserve) to the City's pension trust fund held by Public Agency Retirement Services (PARS). In the PARS account, a better return on the City's investments could be obtained than in its general portfolio. The trust fund is ultimately a very flexible placement of the City's funds. Although the funds can only be used to pay for retirement obligations through CalPERS, the City's required contributions to CalPERS will be over $7.5 million in the current fiscal year, and increasing in future fiscal years. Should funds be needed for other purposes, the CalPERS contributions could be paid directly from the trust fund, freeing up the General Fund monies for other desired uses. This flexibility will serve the City well when considering funding strategies in the review of the five-year forecast.

General Fund Reserve Policy and Capital Investment Reserve – The City Council approved a General Fund Reserve Policy early in 2015 that recognized the need for adequate reserves to guard against future economic downturns such as the current slump brought on by the pandemic. The policy dictates an annual review and adjustment in the Economic Stability Reserve. In addition, in recognition of Burlingame's significant unfunded capital planning/facility needs and the continued impact of these needs on the City's financial flexibility, the Council also approved the establishment of a Capital Investment Reserve within the Capital Improvement Projects (CIP) Fund. The purpose of the Capital Investment Reserve was to offset the further accumulation of unfunded liabilities that aging facilities represent. The reserve was initially funded with a General Fund transfer of $3 million, a reflection of the fund's operating surplus in fiscal year 2013-14. Since that time, the Capital Investment Reserve has been funded with each annual operating budget in the base amount of $3 million. The reserve has also grown as a result of surpluses generated during the continued economic expansion of recent years.

CITY OF BURLINGAME, CA
CHANGES TO CAPITAL INVESTMENT RESERVE

Beginning Balance Established 3/31/15 (FY14-15)	**$**	**3,000,000**
Budget Transfer from General Fund in FY 2015-16		3,000,000
Add'l Budget Transfer from General Fund in FY 2015-16 (mid-year)		5,000,000
Decrease in Catastrophic Reserve Fund (mid-year)		2,500,000
Ending Balance 6/30/16	**$**	**13,500,000**
Budgeted Transfer from General Fund in FY 2016-17		3,000,000
Add'l Budget Transfer from General Fund in FY 2016-17 (mid-year)		4,000,000
Ending Balance 6/30/17	**$**	**20,500,000**
Budget Transfer from General Fund in FY 2017-18		3,000,000
Add'l Budget Transfer From General Fund in FY 2017-18 (mid year)		2,300,000
Ending Balance 6/30/18	**$**	**25,800,000**
Budget Transfer from General Fund in FY 2018-19		3,000,000
Ending Balance 6/30/19	**$**	**28,800,000**
Budget Transfer from General Fund in FY 2019-20		6,500,000
Transfer to fund New Community Center Project		(10,644,000)
Ending Balance 6/30/20	**$**	**24,656,000**
Purchase of Rule 20-A Credits (Saratoga)		(1,208,330)
Purchase of Rule 20-A Credits (Shasta County)		(2,250,000)
Budgeted Balance at 6/30/21	**$**	**21,197,670**

Unlike other amounts reflected in the fund balance of the Capital Projects Fund, Capital Investment Reserve funding will not be appropriated to a specific project. Rather, the reserve accumulates for capital projects to be initiated when timing is optimal and sufficient other funding is identified. An appropriation from the Capital Investment Reserve was made in FY 2019-20 to supplement the $38.9 million in proceeds from the issuance of the 2019 Lease Revenue Bonds to fund the construction of the new Community Center. In the current fiscal year, strategic purchases of Rule 20A credits from other agencies were made to offset the cost of the undergrounding utility lines as part of the El Camino Real Renewal Project; the $3.5 million purchase will provide over $11.5 million of funding for that project, expected to cost approximately $30 million. (Use of the Capital Investment Reserve for the purchase from Saratoga was approved by Council resolution. The draw for the Shasta County purchase is included in this mid-year budget resolution.)

Generally, recommendations for funding this reserve are typically executed with each budget adoption and again with the annual mid-year analysis. As the City is not anticipating a surplus in the current fiscal year, the budget contains no additional funding to the Capital Investment Reserve.

Other Funds

Finance staff reviewed all City funds for this mid-year analysis. The annual mid-year adjustment of investment revenue affects all funds.

The recommended revenue adjustment for the City's individual funds is largely the result of the decreased earnings allocations anticipated from the City's investment portfolio, explained in the General Fund Revenues section of this report (Attachment A). Although decreased cash balances were aptly projected for most funds, it appears that yields will remain very low – lower than initially anticipated – for the near future. Although a large increase in Debt Service earnings was experienced in the prior fiscal year from investment of the 2019 Lease Revenue bond proceeds, the bonds will be drawn down as the new Community Center construction progresses. An additional issuance of Storm Drain Revenue bonds may increase earnings, but this will be too late in the current fiscal year to have much impact. The recommended adjustments for interest income in each of the larger funds are shown below:

CITY OF BURLINGAME, CA
INTEREST INCOME

	FY18-19 Actuals*	FY19-20 Actuals*	FY20-21 Current Budget	FY20-21 New Projection	FY20-21 Budget Amendment	Adjustment Up (Down) %
General Fund	$2,380,791	$1,772,392	$1,563,000	$1,508,000	($55,000)	-3.5%
Debt Service Fund	188,172	352,539	330,000	318,000	(12,000)	-3.6%
Storm Drain Fund	190,337	246,578	77,000	74,300	(2,700)	-3.5%
Water Enterprise Fund	252,020	371,418	313,000	302,000	(11,000)	-3.5%
Sewer Enterprise Fund	179,165	393,353	320,000	309,000	(11,000)	-3.4%
Parking Enterprise Fund	139,051	189,607	174,000	168,000	(6,000)	-3.4%
Building Enterprise Fund	170,943	228,261	200,000	193,000	(7,000)	-3.5%
Other funds	457,401	644,907	593,000	572,500	(20,500)	-3.5%
Total, Interest Income	**$3,957,880**	**$4,199,054**	**$3,570,000**	**$3,444,800**	**($125,200)**	**-3.5%**

*Excludes Fiscal Year End Mark-to-Market Adjustment

An additional adjustment that affects all operating funds is recommended to reflect a more accurate projection in health insurance costs. Health insurance rates for the following calendar year are established by CalPERS in July; staff overestimated the costs of these premiums for rates beginning January 1, 2021. The overall impact of COVID-19 on CalPERS' 2021 health rates was quite modest, creating a city-wide budgetary savings of approximately $300,000.

CITY OF BURLINGAME, CA
HEALTH INSURANCE COST

	FY18-19 Actuals	FY19-20 Actuals	FY20-21 Current Budget	FY20-21 New Projection	FY20-21 Budget Amendment	Adjustment Up (Down) %
General Fund	$2,481,006	$2,524,638	$2,978,790	$2,763,590	($215,200)	-7.2%
Water Enterprise Fund	$256,461	$257,918	$310,083	$310,083	0	0.0%
Sewer Enterprise Fund	$213,735	$212,982	$232,126	$217,226	(14,900)	-6.4%
Parking Enterprise Fund	$25,234	$27,666	$45,426	$41,326	(4,100)	-9.0%
Building Enterprise Fund	$73,123	$108,327	$177,500	$140,000	(37,500)	-21.1%
Other funds	174,295	165,087	209,021	178,921	(30,100)	-14.4%
Total, Interest Income	**$3,223,855**	**$3,296,619**	**$3,952,946**	**$3,651,146**	**($301,800)**	**-7.6%**

Capital Projects Fund – As noted, transfers from the General Fund for capital improvements were sharply decreased in the FY 2020-21 budget in order to limit the anticipated draw on General Fund reserves in the short term. Staff identified two small adjustments for the City's Capital Projects Fund that will require an increase in General Fund transfer out of the fund.

In February, the City Council approved an increase in the contract with The Ferguson Group (TFG) to assist the City in obtaining substantial federal funding for the Broadway Grade Separation project. Specifically, TFG will perform a project benefits and cost analysis, complete a compelling grant application, and continue the advocacy efforts initiated last year with federal agencies and Congressional officials to lobby for this very important project (#82540). An additional $35,000 will be needed to cover these costs.

Also in February, the bids for the Police Department Jail Interior Remodel project came in slightly higher than the engineer's estimate. In order to fund the construction and inspections for this project, as well as any contingencies that may arise, a $19,000 increase is needed for this CIP project (#85370).

Debt Service Fund – No mid-year adjustments to the adopted budget for fiscal year 2020-21 are needed for the City's Debt Service Fund. The following table is included here to confirm that the current-year debt service requirements were reduced by the amount available from prior-year transfers from the City's General Fund, including Measure I funds, for the 2019 Lease Revenue Bonds. Funds for the first $2 million debt service payment (due July 1, 2020) were set aside with General Fund and Measure I transfers in both fiscal years 2018-19 and 2019-20. In order to conserve General Fund monies in the current fiscal year, funds already residing in the debt service fund will be used for the debt service payment due July 1, 2021.

Because the Community Center Lease Revenue Bonds proceeds are being drawn on as construction continues, interest earnings on the Debt Service Fund will decrease in the current fiscal year. This decrease was anticipated in the adopted budget for fiscal year 2020-21.

CITY OF BURLINGAME, CA
GENERAL FUND DEBT SERVICE OBLIGATIONS

Description	Maturity	FY19-20 Adjusted Budget	FY20-21 Adopted Budget	$ Change from Prior Year	% Change from Prior Year
2006 Pension Obligation Bonds	FY2036	$976,500	$998,891	$22,391	2.3%
2010 Lease Revenue Bonds (Corp Yard)	FY2021	1,167,775	1,164,375	(3,400)	-0.3%
2012 Lease Revenue Bonds (Burl Ave Streetscape)*	FY2042	551,488	546,688	(4,800)	-0.9%
2019 Lease Revenue Bonds (Community Center)	FY2049	1,997,334	1,997,000	(334)	0.0%
Cost of Issuance for 2019 Lease Rev Bonds		303,054	0	(303,054)	-100.0%
Debt Administration Costs		20,950	16,100	(4,850)	-23.2%
Subtotal, Principal and Interest		**5,017,101**	**4,723,054**	**(294,047)**	**-5.9%**
Transactions for the 2019 Bonds:					
Transfers from General Fund & Measure I		2,000,000	0	(2,000,000)	-100.0%
Drawdown from General Fund & Measure I Transfers		(2,005,284)	(1,994,716)	10,567	-0.5%
Drawdown from the 2019 Bond Proceeds		(303,054)	0	303,054	-100.0%
Gross Funding Needs from General Fund		**4,708,763**	**2,728,338**	**(1,980,425)**	**-42.1%**
Contributions from Other Funds		**(1,583,218)**	**(1,579,750)**	**3,468**	**-0.2%**
Net General Fund Debt Service		**$3,125,545**	**$1,148,588**	**($1,976,957)**	**-63.3%**

*100% reimbursed by the Special Assessment District and Parking Enterprise

Gas Tax (HUTA) and Road Repair and Accountability Act (RRAA) of 2017 – The Gas Tax is a special revenue fund used to account for the revenue received from the State of California derived from gasoline taxes. These funds may only be used for street purposes as specified in the State Streets and Highways Code, so they have always been an important revenue source for the City's Streets Capital Improvement Program. However, prior to the Road Repair and Accountability Act of 2017 (SB 1), Highway Users Tax (HUTA) revenues were in large part tied to gasoline sales. As a result of downward trends in taxable sales of gasoline, road and transit investments were not keeping pace with the growth in transportation needs across the state.

The RRAA provided a significant new investment in California's transportation systems - about $5.2 billion per year over the first decade of funding, split equally between state and local investments. The Act enhanced HUTA allocations through increases in per gallon fuel excise taxes, diesel fuel sales taxes, and vehicle registration taxes; stabilization of the problematic price-based fuel tax rates; and inflationary adjustments to rates in future years. The Act more than doubled local streets and road funds allocated from HUTA by also providing funds from new taxes through a new Road Maintenance and Rehabilitation Account (RMRA). The RMRA allocations include funds from the additional taxes enacted by SB 1: a 12 cent gasoline excise tax, a 20 cent diesel fuel excise tax, and transportation improvement fees (vehicle registration taxes).

Local streets and roads revenue for cities and counties were lower than initially anticipated last year, as the COVID-19 pandemic resulted in declines in fuel consumption and vehicle sales. Still, in total, the FY 2020-21 adopted budget for these revenues ($1,213,000) reflected only a slight decrease over the prior year due largely to final repayment of transportation loans from the State in FY 2019-20. Each January, the California Department of Finance (DOF) provides new revenue estimates for transportation tax revenues; estimates for the current fiscal year are adjusted modestly based upon these new estimates. The adjustments result in an increase of $46,000 over the revenues initially projected for FY 2020-21:

CITY OF BURLINGAME, CA
GAS TAX ALLOCATIONS

Description	2018-19 Actuals	2019-20 Actuals	FY20-21 Current Budget	FY20-21 New Projection	FY20-21 Budget Amendment	Adjustment Up (Down) %
2103 State Gasoline Tax	$ 101,204	$ 209,047	$ 228,000	$ 234,000	$ 6,000	2.6%
2105 State Gasoline Tax	166,212	154,650	156,000	162,000	6,000	3.8%
2106 State Gasoline Tax	124,174	110,441	113,000	106,000	(7,000)	-6.2%
2107 State Gasoline Tax	209,030	195,275	193,000	205,000	12,000	6.2%
2107.5 State Gasoline Tax	6,000	6,000	6,000	6,000	-	0.0%
RMRA (SB1)	546,154	529,775	512,000	541,000	29,000	5.7%
TCRF (SB1) Loan Repyment	34,163	34,083	-	-	-	n/a
	$ 1,186,937	**$ 1,239,270**	**$ 1,208,000**	**$ 1,254,000**	**$ 46,000**	3.8%

Storm Drainage Fund – The Storm Drainage Fund accounts for the storm drainage fees collected due to an assessment approved by parcel owners in the city at a special election in May 2009. The storm drainage fees (approximately $3.0 million in the current fiscal year) have supported three issuances of bonds (Storm Drainage Revenue Bonds Series 2010, 2012, and 2016). The bond proceeds, which total nearly $26.7 million from the three issuances, are used to fund infrastructure improvements in the City's Storm Drain Capital Improvement program. These proceeds should be totally drawn down in the current fiscal year as existing projects are completed.

Analysis by staff and the City's financial advisor indicate that the City would experience budgetary savings through a current refunding of the Storm Drainage Revenue Bonds, Series 2012, and noted the capacity to issue new money bonds. Given the current low rates in the municipal bond market, staff is pursuing a fourth and final issuance of these bonds. However, no adjustments are yet needed to the fund's 2020-21 fiscal year adopted budget. Issuance and administrative costs associated with these bond transactions will be reflected in the budget once the refunding and new issuance is complete – late in the current fiscal year or early in FY 2021-22.

Water & Sewer Funds – The stay-at-home mandates issued by the state in the spring of 2020 to help stop the spread of the coronavirus had an immediate effect on municipal water demand. Residential water demand in Burlingame has increased in the first half of the fiscal year by 11.6 percent, while non-residential demand has decreased 25.3 percent. The largest area of decrease has been experienced in hotel and restaurant accounts – down by 33.3 percent. But because residential water consumption represents about 80 percent of the demand, overall consumption is down only about 2.5 percent compared to the same period last year. The relatively modest decrease in demand is reflected as an $800,000 downward adjustment in utility sales in the water fund (from $20.8 million to $20 million.) Due largely to a decrease in the number of requests for new meters, related service fee revenues in the Water Fund should also be adjusted downward by $76,000.

The Sewer Utility, however, is experiencing a larger change in billings. Residential sewer fees are largely fixed, whereas commercial sewer fees are based on water consumption. Due to the large decrease in water consumption, particularly for the hotel properties, sewer service charges are anticipated to be down $700,000 (to $11.8 million). The projection for sewer connection fees is also down $135,000. Hillsborough customer sewer charges are anticipated to be up slightly ($40,000), and the volume of discharge permits appears to be up ($30,000) as well.

On April 2, 2020, the Governor issued Executive Order (EO) N-42-20, which prohibits water systems from discontinuing residential water service and water service to small businesses in a critical infrastructure sector. The order required the restoration of all accounts where service had been discontinued for nonpayment since March 4, 2020. As mandated by the order, the State Water Resources Control Board (SWRCB) developed guidelines and best practices for water systems to implement during the COVID-19 emergency. The guidelines suggested that the utility offer residential, critical infrastructure small business customers, and other non-residential customers experiencing severe financial hardship the ability to make partial payments for the duration of the COVID-19 emergency. The practice of developing payment plans for delinquent water bills, tailored to the level of outstanding debt and the customer's ability to pay, has always been part of the City's collection procedures. Fortunately, water shut-offs due to non-payment are not a common occurrence in Burlingame's water utility, and no dramatic increase in delinquent accounts has been noted to date.

Due to the reduced water consumption that resulted from state mandates during the drought conditions of 2012-2017, and increased capital and operating costs of the water system, the City found it increasingly necessary to raise water rates. After the City completed a water rate study in 2016, the City Council approved rate increases equivalent to 9 percent in 2017, 7.5 percent in 2018, and 7.5 percent in 2019. The rate increase implemented on January 1, 2019 was the last approved rate increase for the water system; sewer rates have remained the same since 2012.

Although it appears that the commercial and residential developments coming on-line have slowed, revenues in both funds are expected to rise moderately in FY 2021-22. The sewer master plan started last year has largely been completed, and an extensive sewer rate study is now underway. This will ensure that future rates are able to support the necessary improvements indicated for this aging infrastructure.

Solid Waste and Landfill Funds – Increases in Solid Waste rates were approved for three sequential calendar years (2019, 2020, and 2021), to eliminate prior-year deficit spending, rebuild the fund's rate stabilization reserve, and provide cost increases for the new franchise agreement with Recology for collection services beginning January 1, 2021. Customer rates pay not only for solid waste collection services, but also for the processing, staging, and shipment of materials at the Shoreway facility, owned and operated by the South Bayside Waste Management Authority Joint Powers Agreement (SBWMA), of which Burlingame is a member. Disposal fees and the cost of organic waste programs also need to be covered in the rates. Rates must also provide for the costs of monitoring and testing the City's former landfill and reducing the post-closure liability associated with the landfill; the cost of City-sponsored waste reduction programs; street sweeping; and the periodic steam cleaning of public trash receptacles. Increased operating and capital costs are anticipated in this utility, as the State has finalized regulations pertaining to the reduction of greenhouse gasses through the management of organic wastes. The regulations will require new technologies that are currently being pursued by the SBWMA.

As an essential service, residents and businesses rely on the solid waste services the City provides through its contracts and partnerships within the SBWMA. The pandemic has altered the character of solid waste generation (as discussed in the section of this report regarding General Fund Franchise fee revenue). Only one minor budget adjustment is needed within the fund at this time. The desire to keep the Burlingame downtown area clean and free of take-out containers and other debris required the City to keep *two* street sweepers in operation all year (rather than just in the summer months). The additional costs amounts to approximately $3,000.

Building Enterprise Fund – Revenues in the Building Enterprise Fund (largely construction permits and building plan check fees) are showing greater-than-anticipated activity in fiscal year 2020-21. Although down 7 percent from the prior fiscal year, building permits activity is higher than anticipated, and fees are expected to come in $280,000 higher than budgeted. The volume of building plan checks is 18 percent higher than experienced last year, and these revenues are anticipated to exceed the adopted budget (and prior-year results) by over $690,000, for a total adjusted budget of nearly $1.5 million. The additional activity will also increase revenues from imaging fees, by approximately $25,000.

CITY OF BURLINGAME, CA
BUILDING FUND REVENUES

Description	FY18-19 Actuals	FY19-20 Actuals	FY20-21 Current Budget	FY20-21 New Projection	FY20-21 Budget Amendment	Adjustment Up (Down) %
Construction Permit Fee	$ 1,126,935	$ 2,487,684	$ 1,180,000	$ 1,460,000	$ 280,000	23.7%
Building Plan Check Fees	2,048,931	1,265,422	800,000	1,490,000	690,000	86.3%
Microfilm Fees	45,278	108,108	40,000	65,000	25,000	62.5%
Other Revenues	62,974	210,092	0	0	0	n/a
Total	**$ 3,284,119**	**$ 4,071,306**	**$ 2,020,000**	**$ 3,015,000**	**$ 995,000**	**49.3%**

Offsetting these increased revenues somewhat is a $350,000 increase in the Building Enterprise Fund expense budget for contractual services. The vacancy of one full-time building inspector during a time of increased activity has resulted in the need for contract staff that was not anticipated in the adopted budget. The City's professional services agreement with Bureau Veritas North America has been increased by $300,000 to provide for the additional demand. In addition, the time required for archiving of building documents and plans was underestimated in the adopted budget. The agreement with CSG Consultants has been increased by $50,000 to work on this backlog and help respond to public records requests, which have increased in the Building Division tenfold since last year.

Parking Enterprise Fund – The Parking Enterprise Fund provides for the maintenance and upkeep of the City's parking lots and metering equipment, including maintenance and utility service for the electric vehicle (EV) charging stations in City lots. Parking fee revenue projections were lowered even before the pandemic dampened all business activity in 2020, as the downtown area was in the midst of significant development activity, with Lot N and a portion of Lot F closed down beginning in October 2019. Employees in the downtown areas had begun to utilize alternative transportation and/or parking in alternative long-term lots that were less expensive. With the statewide shelter-in-place orders effective most of the last quarter of FY 2019-20, parking meter fees and permits were waived in an effort to assist businesses experiencing reduced foot traffic and continued in-store limitations. At year end, parking fees resulted in only $1.7 million in revenues for the fund, compared to $2.4 million the year before. Parking permits, which are used to provide employees in the downtown area with consistent, less expensive parking, brought in revenues of less than $200,000, compared with $345,000 in FY 2018-19. Revenues from parking fees and the sale of parking permits for the downtown area were conservatively projected at $1.5 million and $300,000, respectively, for FY 2020-21. Although the revenue projection for parking fees is adequate, it now appears that a further downward adjustment is necessary for parking permit fees. Despite efforts to provide on-line processing for these permits, the demand has dwindled. A new revenue estimate of $150,000 is now projected for parking permits.

Revenues from electric vehicle charging stations exceeded the budget last fiscal year, with $16,200 from this source in FY 2019-20. Although the $20,000 revenue projection for the current fiscal year may be slightly optimistic, year-to-date data shows an increased number of electric vehicle charging stations is now being utilized.

Internal Service Funds **–** Internal service funds (ISFs) are used to account for internal costs that are borne by all departments/programs of the City. Allocation of these centrally incurred costs is performed based on estimated usage or other metrics. For example, actuarially studies of the frequency and severity of claims are used to determine the allocation of charges to departments for the General Liability and Workers' Compensation ISFs. Changes to the budget of an internal service fund do not necessarily require an offsetting change in the fund's revenues (charges to the participating departments), as each fund has a separate fund balance that can vary due to need. However, these funds are carefully monitored to ensure that departments are appropriately and adequately charged. Increases in expenditures in internal service funds eventually necessitate higher operating budgets in future years.

Administration/Information Services Internal Service Fund – The budget for this fund includes not only information services, but also the costs of maintenance for centralized printing and mailing equipment. Expenditures in the fund for FY 2019-20 were 18.5 percent higher than the year before, due in part to the costs of computer equipment purchases and software licensing needed to enable staff to work remotely. The adopted budget anticipated additional costs for the current fiscal year, but no mid-year adjustment is being requested. The increasing costs will be reflected in future years charges to the departmental budgets.

Unfunded Needs

The identification and funding of capital projects and otherwise unfunded, long-term needs of the City is a priority of the City Council. Since developing and prioritizing an initial list of unfunded needs in fiscal year 2014-15, staff has explored various options to address the large liabilities represented by the City's aging facilities. In February 2018, the Council approved a Measure I spending plan that included partial debt financing of a new Community Center. The 2019 Lease Revenue Bonds were issued for this purpose, resulting in $38.9 million in bond proceeds.

Other City facilities (other than the Recreation Center) have served their original intended design life and are in need of major improvements. Though the City regularly invests in building maintenance, major building components are overdue for replacement. A Building Facilities Condition Assessment Study and Capital Improvement Master Plan, performed in 2016, concluded that the City should consider replacing older buildings before maintenance costs increase significantly. As part of the 2019-20 Goal-Setting Session, the City Council reviewed a list of 17 large unfunded infrastructure projects that carried a total magnitude of cost ranging between $637 million to $786 million. Because these were all multi-year projects, the Council identified the top five infrastructure initiatives it would focus on developing in the coming years: Broadway Grade Separation, City Hall Modernization and Safety Improvements, Specific Plan for Rollins Road, Sea Level Rise Shoreline Protection Improvements, and Underground Power Lines on El Camino Real.

As funding options are explored, these and other capital needs will compete for General Fund resources and challenge the organization's capacity to successfully undertake future projects. Although funds are being set aside in the City's Capital Investment Reserve, these major projects will require a financing package of hundreds of millions of dollars. For example, the City's matching obligations for the Broadway Grade Separation project will be substantial – the five-year forecast includes an estimated $15 million in funding from the Capital Investment Reserve in FY 2022-23 for this purpose. The reserve is funded by annual surpluses and one-time revenues. As a result, no funding can be anticipated in years of economic downturn. In fact, once revenues recover from the current pandemic-induced declines, the City will prioritize a rebuilding of General Fund reserves. Non-capital needs, such as accrued pension liabilities, present additional challenges that should be kept in mind when reviewing the current General Fund Five-Year Forecast.

General Fund Five-Year Financial Forecast

The five-year forecast attached to this report as ***Attachment C*** was developed using the FY 2020-21 budget, adjusted for the recommended adjustments in this report, as a starting point for estimating revenues and expenses of future operating budgets.

To evaluate the ongoing impact of each of the updated General Fund projections described in the City's five-year forecast, it is important to consider which adjustments reflect one-time events, and which represent a fundamental change in the City's revenue or expenditure structure. One-time revenues cannot be relied upon to augment ongoing services, just as non-reoccurring costs will not drain the General Fund on a continuing basis. Therefore, no sale of General Fund assets or one-time subsidies are assumed in the five-year forecast.

Revenues associated with the Measure I ¼ % transaction/sales tax are now included in the City's five-year forecast, as are the offsetting expenditures identified in the Measure I spending plan. Measure I revenues and expenditures are accounted for in a subfund of the City's General Fund to provide maximum transparency as to the use of these resources but are always included when reporting General Fund activities.

The five-year forecast was prepared with careful consideration to each revenue and expenditure category. These analyses roll up to the summary forecast shown in ***Attachment C***. General Fund revenues are monitored closely. In the past, projections have been based upon a rolling forecast model that combined actual results with smoothed, multi-year historical data. But the pandemic-induced recession dramatically altered the City's General Fund revenue results last year, and recovery will take a different pace for each revenue category. Forecast assumptions now rely heavily on information from third-party experts, published industry indices, and/or data collected from City departments. Adjustments are also made for known and/or assumed financial factors such as economic and legislative changes at the national, state, and local level. This analytical strategy allows a different growth assumption to be applied for every account within a revenue or expenditure category. For example, if solid waste franchise fees are anticipated to grow faster than electric franchise fees, these different growth rates can be part of the assumptions. However, the casual reader will not be able to determine these forecast assumptions by simply calculating a growth ratio.

The rest of this report attempts to articulate major deviations from a flat growth assumption within any category; the assumptions are summarized in the tables below:

Forecasted Revenue Assumptions

Revenue Description	Annual Growth Assumption	Explanatory Comments
Property Tax	Secured 6.0%	The actual assessment roll growth, per the County Assessor, is based on the January 1 lien date and continuing trend of low property turnover. The housing market continues to be tight, with housing inventories still low. However, moderating home prices and the completion of new residential developments is expected to ease demand. In FY 2020-21, the Burlingame Point project was included in the City's assessed valuation data; smaller commercial projects are expected to keep these assessed values healthy. Assume VLF shortfalls will not be backfilled by State appropriations.
ERAF Rebate	Held flat	The Educational Revenue Augmentation Fund (ERAF) rebate is held flat for projection purposes. Schools flipping to basic-aid status should increase the amount of ERAF refunded to the City, but uncertainties make this a volatile calculation each year.
Sales Tax **Sales Tax (cont.)**	2% - 7%	This assumption is based upon recent Q3 2020 sales tax data and the HdL Companies' long-term forecast. Although these revenues held up relatively well through the pandemic, consumer spending patterns have changed, and growth is expected to level off somewhat after the pandemic recovery. A 7% growth is projected for FY 2021-22, with gradually slowing growth in the outer years of the forecast. Measure I revenue projections (included) will follow the same growth.

Revenue Description	Annual Growth Assumption	Explanatory Comments
Transient Occupancy Tax	10-80%%	This assumption is based upon forecasts of the road to recovery for business travel and the area's hotels from the COVID 19 health emergency. As the demand for conferences and business meetings increases, average daily room rates should also recover somewhat. After an initial bounce back in FY 2021-22 (80% of the current fiscal year), slower growth is anticipated. Occupancy rates are assumed to be back to pre-pandemic levels by the end of 2024, with room rates recovering by the summer of 2025. These revenues will probably not return to pre-pandemic totals until the end of fiscal year 2024-25. No change in the total of hotel rooms available is assumed in any forecast year; minimal revenues from STRs are assumed (beginning FY 2021-22).
Other Taxes - Franchise Tax	3.0% - 5.0%	This assumption is based upon expected utility consumption as business activity increases. Assumes slightly higher gross revenue increases for PG&E. Increases in garbage rates in the outer fiscal years are anticipated as well. Cable/internet services are expected to diminish somewhat.
Other Taxes - Business Licenses	2-6%	Due to greatly diminished volumes of passenger traffic at SFO, revenue from the long-term parking business licenses tax, which is based on gross receipts, has been greatly subdued. Although full recovery in long-term parking activity is not anticipated, some increase is expected in the next few years. Growth will be moderate in general business license revenue, as it is based upon the number of businesses rather than gross receipts, and the rate is flat.
Other Taxes - State HOPTR	1.0%	This assumption is limited to growth in the number of homeowner occupied parcels.
Other Taxes - Transfer Tax	2.0%	The transfer tax assumption is based upon historical patterns and consistently low inventories of properties for sale. Average turnover rates and only moderate increases in property values are assumed.
Licenses & Permits Fines, Forfeitures & Penalties	2-5%	This assumption is based primarily on no/slight annual adjustments to license fees, and a very small increase in volume. Parking

Revenue Description	Annual Growth Assumption	Explanatory Comments
		citations are expected to recover from pandemic conditions due to higher demand for parking in general. Not included here is an assumption for added parking lots or garages over the next five years, due to unknown implementation dates and impacts on citation volume.
Charges for Services	3%-20%	More services are assumed to be available post-pandemic. Programming at the new Community Center will increase these revenues after a two-year lull from closure of the current facility. Other growth in charges for services is based primarily on consumer price index adjustments to fees.
Use of Money & Property	5%	The assumption is based upon current long-term lease information, which has shown a general decline in recent years as City facilities are temporarily repurposed. No assumptions are made regarding the Top Golf lease.
Other Revenue	Flat	No growth is projected due to one-time revenue.
State Subventions	Return to pre-pandemic levels ($200k)	The forecast assumes no further mandated cost recoveries, and limited additional state subvention programs once the economic recovery gains momentum.
Interest Income	-25% in 2021-22; 2 % thereafter	This growth assumption is based upon cash balances declining further until revenues are restored to pre-pandemic levels, and yields on investments remaining at historically low levels in 2021-22. Only modest increases in interest rates are anticipated in the next five years

In the five-year forecast, property tax revenues are assumed to grow at a rate higher than inflation, based on prior year growth in the assessed role and the continued strength of the housing market in the area. Growth in Burlingame's assessed value in fiscal year 2019-20 was 7.28 percent, and current-year property tax revenue was based on a roll 11.52 percent higher; growth in the roll so far for fiscal year 2021-22 indicates that an increase of at least 3.9 percent in property taxes can be anticipated. This rate includes an inflationary factor of 1.036 percent as reported by the State Board of Equalization for December 2020. (The inflationary factor is capped at 2 percent annual growth.) The rest of the growth is from re-assessments, usually the result of properties changing ownership. If the economy does not weaken further, assessed values should continue to increase steadily, and the inflationary factor will most likely return to the 2 percent level in future years. As a result, the assumed growth factor is 6.0 percent for secured property taxes in each fiscal year of the forecast. This follows the bump-up in assessed values in the current fiscal year with the completion of the Burlingame Point development; the potential revenue impact of other future (specific) development is NOT included in the long-term forecast.

Property tax revenues as a whole exhibit a slightly lower rate of growth than secured property taxes in the five-year forecast due to the inclusion of excess ERAF refunds. Long a part of the City's property tax revenue stream, the refunding of amounts remaining in the County's Educational Revenue Augmentation Fund (ERAF) to the subsidizing local governments continues to be uncertain. In recent years, the growing assessed role has yielded more adequate property tax funding for local schools, reducing the need for draws on these funds within the County of San Mateo. However, offsetting this positive development is uncertainty in the future funding of the Property Tax in Lieu of VLF, which is currently funded from the same ERAF, but with no required funding from the State in the event of a shortfall. In future years, school funding needs may intensify, decreasing the amounts available for refunding. These ERAF refunds may even come to an end if the State's uses of ERAF are expanded. Because of the many unknowns surrounding the allocation of ERAF funds, the five-year forecast assumes these refunds will remain flat at $2.4 million annually.

The Transient Occupancy Tax (TOT) rate in the City of Burlingame was last increased – effective January 1, 2010 – from 10 to 12 percent, and that rate is assumed to remain unchanged in future years. In recent years, the City's revenue had grown to be the City's largest General Fund revenue source, comprising 34.8 percent of General Fund Revenues in the 2018-19 fiscal year. But the coronavirus pandemic and the impacts of the associated public health and safety restrictions on the business travel industry induced a swift drop in both hotel occupancy and room rates. TOT revenues that hit $29.4 million in FY 2018-19 are expected to total approximately $7.5 million in the current fiscal year.

This past year's results have confirmed that revenues generated from TOT can be very volatile. As noted in the risk-based analysis of the City's General Fund reserve needs, receipts are directly tied to changes in occupancy and average daily room rates (ADR) of the City's 3,700+ hotel rooms. As the hotel and hospitality industry moves from crisis management to recovery, it is unreasonable to assume these revenues will rebound quickly. (See the discussion of TOT revenues in Attachment A of this report).

Last year, the City of Burlingame approved an application to redevelop the property at 1499 Bayshore Highway with a 404-room, 11-story hotel. The impact of the additional supply of rooms in Burlingame is not considered in the City's five-year forecast, as ground has not yet broken on this project. Burlingame's TOT revenue projection for the proposed fiscal year 2021-22 budget will consider the most recent data available, and may change from the amount shown in the five-year forecast.

Up until the time of the pandemic, the City's sales tax base had continued to grow moderately with the economic recovery from the Great Recession of 2008. Obviously, sales tax revenues were immediately and negatively impacted by the state-wide business shutdown in March 2020. However, the decline in taxable sales was not as severe as anticipated last spring. Public health and safety restrictions combined with federal stimulus induced an acceleration in the shift of consumer shopping habits towards on-line purchases beginning in April 2020. The forecast for the upcoming fiscal year depends heavily on how quickly consumers feel comfortable about in-store shopping and indoor dining. HdL projects a 7.1 percent growth for fiscal year 2021-22, followed by an additional 4 percent growth for the following year. The five year forecast includes an assumption of sales tax growth (including Measure I receipts) of an *average* of 4 percent in the outer three years of the forecast, as the tourism industry starts its recovery. However, there are several factors in addition to the impact of the coronavirus on travel and industry that increase the level of uncertainty for this revenue source in the future. Not least among these concerns are the consumer trends prior to the pandemic that indicated a decrease in the purchase of goods and material in favor of non-taxable (services/experiences) transactions. This trend may be exacerbated by a pent-up demand created by the coronavirus. In addition, the overall growing cost of general goods may begin putting pressure on the California spending economy. Larger mortgage payments, higher taxes, and essential spending on non-taxable household needs (such as health care services) result in fewer resources being available for consumers to spend on taxable merchandise.

Income from the City's investment holdings has increased steadily with increased reserves in a growing economy. However, with a considerable drop in reserves and the current weak interest rate environment, interest earnings are expected to drop approximately 25 percent from current levels in fiscal year 2021-22. Though yields on the short-term, risk-averse investments (typical for inclusion in municipal portfolios) have been extremely low for many years, market response combined with federal monetary policy during the pandemic have pushed interest rates even lower, and dashed expectations of any substantial increases in the near-term. As the City continues to set aside funds for previously unfunded liabilities and future needs, staff anticipates these revenues to then increase irrespective of changes in investment yields. However, with rates being so low, *any* increase in yield rates will result in significant growth factors. For example, if a 1 percent investment yield grows moderately to 1.5 percent in the fifth year of the forecast, this represents a 50 percent growth over the period. Staff does not anticipate such an increase; a 2.0 percent increase is projected for the remaining four years of the forecast. Staff will continue to optimize the portfolio's performance while balancing the priorities of safety, liquidity, and yield.

Revenues received in the category of Charges for Services are forecast to increase 20 percent next year as recreational activities are allowed to resume and the final touches are placed on the new Community Center. This category is expected to grow another 20 percent the following fiscal year as the new center is programmed for year-round activities. Development activities are expected to remain steady at the current year's rather brisk pace. After levelling off in FY 2023-24, a 3 percent rise in this category as a whole is forecast for subsequent years of the forecast. Fees for discretionary services are generally anticipated to keep pace with the cost of those services, as charges for the City's services are reviewed annually with the development of the Master Fee Schedule. However, it is appropriate that fees for services that provide a public benefit are subsidized by general revenues (i.e., taxes). Fees will be additionally discussed in detail with the presentation of the Master Fee Schedule in April.

Although an allowance for a slight recovery from the current year revenue projections is included in some of the City's General Fund sources in FY 2021-22 (Business Licenses, Fines and Forfeitures, and Franchise Fees are expected to rise 5-6 percent), all other revenues sources are expected to remain flat or grow at an inflationary rate of 2 percent.

Forecasted Expenditure Assumptions

Expenditure Description	Explanatory Comments
Salaries & Wages	Includes effect of current collective bargaining agreements. Assumes an annual growth in salaries of 2% for FY 21-22, then 3% for out years, as well as normal merit step increases. Assumes part-time wages, after reduced by 50% in FY 20-21, return to the City's normal operating level starting in FY 21-22.
Benefits	Includes an annual health care cost growth rate of 8% for 2022, then 5% for each January 1 change. Also includes expected PERS contribution rate increases (7.5% average annually for Safety and 6% for Misc. employees) coupled with forecast increases in salaries & wages. Also included are employee contributions to health care and PERS in accordance with current MOUs. Growth in other benefit costs – 3% annually.
Operating Costs	Based upon cost of living adjustments for most non-personnel costs and expected changes in utility rates. A 3% compounded annual growth rate is assumed for most operating costs. A 5% escalation factor for service from Central County Fire is also assumed. Operating costs include a payroll surcharge assessed on full-time employees to fund *previously incurred* costs associated with retiree medical benefits (OPEB) for former employees
Internal Services	Assumes an annual growth of 4% for FY 21-22, then 3% thereafter.
Capital Outlay	Includes a base of $250k (FY 21-22) based upon historical use and 3% growth rate.
Transfers In (Out)	Assumes reimbursements for debt service, increasing General Fund investments in Capital Projects after FY 21-22, and renewed support of City shuttle programs; offset by transfers to the fund for administrative support of enterprise operations.
Debt Service	Includes actual debt service for all current outstanding bond issues. (FY 20-21 was the last year for 2010 Corp Yard Bonds.) Assumes no refinancing or new debt.

With revenues forecasted to grow from pandemic lows, the examination of General Fund expenditures becomes critical in the evaluation of how quickly the City will be able to rebuild the reserves necessary for long-term fiscal health. In general, assumptions regarding future personnel costs (which constitute slightly over half of the General Fund budget) must be carefully considered. Whereas City revenues can vary widely with the economy, decisions made about employee costs have less of an immediate impact on operating budgets but may carry long-term implications that could stifle the ability to provide an appropriate level of services in the future. Therefore, the City has, to the extent possible, limited the addition of full-time equivalent (FTE) positions to the workforce. The ability to quickly alter the City's use of temporary employees to supplement the services provided by full-time/permanent positions has been instrumental in adapting to the change in economic conditions brought on by the pandemic. But the trend of most concern in governmental expenditures – the long-term costs for pension and other benefits for full-time employees – must remain uppermost in budgetary considerations.

The City of Burlingame offers its permanent employees a defined benefit pension plan that is administered by the California Public Employees' Retirement System (CalPERS). Retirement costs continue to rise in part due to actions taken by the CalPERS Board to mitigate the impacts of past investment performance, a prolonged low-interest rate environment, and the volatility anticipated in future investment returns. To increase the likelihood that assets set aside to fund retirement obligations will be sufficient to meet the demand of retiring workers, the Board has reduced its investment return assumption (discount rate), and decreased the number of years over which investment gains and losses are amortized (from 30 to 20 years). These and other actuarial assumption changes will serve to push employer required pension contributions upward over the course of the next five to ten years, as investment returns will be relied upon less, and contributions relied upon more, in order to fund pension obligations. Because outside investment advisors generally believe that investment returns over the next 10 years will be well below 7 percent, the Board is anticipated to make further changes to this pivotal assumption.

Employer required contributions toward the City's unfunded CalPERS liabilities are set to increase 31% ($2.0 million) over the course of the next five years. In order to smooth the impact of pension rate increases to future operating budgets, the City established a § 115 pension trust fund with Public Agency Retirement Services (PARS). A prefunding strategy was adopted utilizing a "target" rate of funding, representing the average rate of projected employer contributions that would be required from CalPERS over the next 15 years. (Target rates were established separately for the City's Safety and Miscellaneous pension plans with CalPERS.) Pursuant to this strategy, the required funding would be paid to CalPERS each pay period, and, to the extent that the target rate was higher than the required CalPERS employer contribution rate, amounts would be contributed to the dedicated trust or reserve fund. The funds would be drawn upon when the required employer rate invariably exceeded the target rate. Note that contributions to the § 115 Trust for pensions do not impact total fund balance, but must be reflected as "restricted" fund balance for financial statement purposes.

A revised actuarial study for the City's pension plans with CalPERS was performed early in the current fiscal year. The study found that the City's required contributions to CalPERS were not rising as rapidly as initially anticipated. Hoping to preserve a conservative approach to funding outstanding pension obligations, staff concluded that the threshold rates used to determine the amount of contributions to the pension trust fund could remain at 76.9 percent for the Safety plan and 37.7 percent for the Miscellaneous plan if the investment rate of return assumption were set at zero percent. If this discount rate assumption proves be too conservative, the City can adjust its contributions to the trust in subsequent years, while retaining the flexibility of drawing from the trust whenever needed. Although CalPERS projections for Burlingame's employer contributions for the next five years are slightly lower than initially anticipated when the trust fund was established, maintaining these thresholds at the higher rates provides conservative funding guidelines for the City's long-term pension liabilities.

CITY OF BURLINGAME, CA CONTRIBUTIONS TO PENSION TRUST BY FUND	2017-18[1] Actuals	2018-19 Actuals	2019-20[2] Actuals	2020-21 Actuals	TOTAL CONTRIBUTIONS
General Fund	4,139,920	2,838,000	2,957,000	2,250,000	12,184,920
Admin/IT	5,641	5,200	3,950	6,000	20,791
Building Enterprise	82,011	75,900	57,900	86,000	301,811
Facilities	56,212	51,900	39,300	45,000	192,412
Fleet/Equipment	36,669	30,100	23,460	28,000	118,229
Landfill Fund	4,752	4,600	3,490	4,000	16,842
Parking Enterprise	19,122	17,500	13,200	16,000	65,822
Sewer Enterprise	169,791	158,200	117,700	139,000	584,691
Solid Waste Enterprise	30,101	28,000	20,000	24,000	102,101
Water Enterprise	205,573	188,300	143,000	172,000	708,873
TOTALS	**4,749,792**	**3,397,700**	**3,379,000**	**2,770,000**	**14,296,492**

[1] Includes additional $1 million General Fund contribution at mid-year.
[2] Includes additional $800,000 General Fund contribution for CCFD.

The City has always reflected a conservative CalPERS rate in its five-year forecast. However, the impact of the changes to the CalPERS assumptions is significant. The rates shown below reflect rates provided by CalPERS (through FY 2021-22); subsequent-year rates are based on the actuarial study completed by GovInvest in September. Note that the most immediate impact of the discount rate assumed by CalPERS is seen in the large increase in the UAL (unfunded accrued liability) of prior years.

Estimated CalPERS Rate											
	Misc. Rate					**Safety Rate**					
Fiscal Year	Normal Cost		UAL Payment	Total Contributions	Total as % of Payroll	Normal Cost		UAL Payment	Total Contributions	Total as % of Payroll
2019-20 Actual	1,702,600	+	2,776,389	4,478,989	27.2%	885,500	+	1,755,134	2,640,634	52.1%
2020-21 Est.	1,991,000	+	3,060,247	5,051,247	27.9%	958,000	+	1,995,166	2,953,166	56.0%
2021-22 Est.	1,907,000	+	3,593,631	5,500,631	29.8%	996,000	+	2,321,858	3,317,858	59.9%
2022-23 Est.	1,913,000	+	4,290,000	6,203,000	32.6%	1,026,000	+	2,940,000	3,966,000	69.5%
2023-24 Est.	1,911,000	+	4,690,000	6,601,000	33.7%	1,057,000	+	3,250,000	4,307,000	73.3%
2024-25 Est.	1,908,000	+	5,020,000	6,928,000	34.3%	1,089,000	+	3,510,000	4,599,000	76.0%
2025-26 Est.	1,903,000	+	5,400,000	7,303,000	35.1%	1,122,000	+	3,770,000	4,892,000	78.5%

Source of information: Normal Cost is calculated based on current payroll projection, CalPERS rates, and net of employee cost sharing.
UAL payment is based on GovInvest pension analysis with the assumption that investment return will be at 6% for FY21 ~ FY26.

Again, because personnel costs are such a large portion of the General Fund budget, these changes in employer contribution rates, although not as costly as estimated in prior years, have a significant impact on the fund's five-year projection.

Salaries and wages have been broadly projected at levels that assume all existing labor agreements are adhered to until expiration, and the use of part-time employees is resumed in FY 2021-22. The City's most recent labor negotiations were completed well prior to the pandemic. While reflecting concern over increasing employee benefit costs, the resulting contracts also acknowledged the improved economy and the higher cost of living in the Bay Area. The contracts provided a balance in the four major cost areas of employee compensation: salary, health premium contributions, pension obligations, and retiree medical benefits. Many of the current MOUs with the

City's bargaining units expire at the end of calendar year 2021. The long-term forecast reflects growth in salaries and wages at a conservative level of 3 percent once these contracts expire.

Another part of the personnel cost budgets is the pre-funding of retiree medical benefits (OPEB). Funded on a pay-as-you-go basis until the 2013-14 fiscal year, the cost of these benefits, largely incurred in prior years, is now being pre-funded through an (external) irrevocable trust. These costs represent a surcharge of approximately 20 percent on regular salaries and benefits. The *normal* cost (cost of the benefit earned by active employees for the current fiscal year) is included in all personnel cost projections and should decrease over time because retiree medical benefits offered to new employees (since 2012) are greatly reduced. According to the latest OPEB actuarial valuation report (as of June 30, 2019), the amount of the surcharge needed will gradually decrease to approximately 17% of payroll over the next two fiscal years due to changes in actuarial assumptions and census data.

As noted previously in this report, the City's contributions to employees' Health Reimbursement Arrangement (HRA) accounts were negotiated in FY 2019-20 and caused a one-time bump up due to the retroactive contributions made in the current fiscal year. This benefit was needed to replace the much more expensive retiree medical care programs offered to new employees prior to FY 2011-2012. HRA employer contributions are not included in PERSable compensation, and as a defined contribution benefit, will not increase the City's post-employment liabilities.

Beginning with the 2016-17 fiscal year budget, staff has recommended that the budgeted transfer from the General Fund to the Capital Projects Fund be established based on the City's capital needs for the upcoming fiscal year, as opposed to a portion of TOT revenues, to the extent there is staff capacity in the organization to accomplish the identified projects. In addition to the $6.5 million set aside in the current fiscal year for the Capital Investment Reserve, nearly $9.2 million was transferred from the General Fund to support specific governmental capital projects in the FY 2019-20 adopted budget. To mitigate the draw on the General Fund reserves anticipated with the advent of the pandemic last year, the current year transfer was reduced to $3.2 million. The five-year forecast shows a transfer of $3.16 million for capital projects, though the transfer that will be needed for FY 2021-22 has not yet been solidified. Because the City Council has prioritized several large infrastructure improvement projects that will require significant City funding, the transfer for capital projects is the single largest variable in the General Fund five-year forecast. Although the new Capital Improvement Program (CIP) schedule is not yet finalized, the forecast assumes that projects in the pre-pandemic CIP will kick in for the 2022-23 fiscal year and beyond.

No contributions to the Capital Investment Reserve in the Capital Projects Fund are anticipated until General Fund Reserves are returned to the levels established in the General Fund Reserve Policy.

Although the broad assumptions that underlie the five-year forecast are considered to be conservatively realistic, any number of risk factors could result in a less positive forecast, including the emergence of additional coronavirus variants; ineffective vaccines or disruption in the distribution of vaccines nationally or abroad; disruption of essential supply chains; ineffective monetary policy by the Federal government; another major retrenchment of consumer spending; increased unemployment; escalating inflation; or an emergency event. Conversely, improved revenues from the implementation of business development strategies, or simply pent-up demand for travel and personal services may provide the headwind to stronger revenues and surpluses in the future. No single strategy is assumed to succeed (and included in the five-year forecast) until the result is imminent. For example, no assumptions (in revenues or accompanying expenditures) associated with the Top Golf development are included in the forecast. Staff has endeavored to provide the most realistic budgetary projections possible using the most recent data available. Analysis of the General Fund and City operations as a whole will continue through the development of the fiscal year 2021-22 budget, and will undoubtedly provide revisions to this five-year forecast.

Longer term financial planning is not limited to the General Fund. The City's other operating funds are also examined for unfunded liabilities and future vulnerabilities, and adjustments are made as needed. To the extent these funds are not self-sustaining, they can indicate a drag on the City's General Fund operations. To avoid such a condition, long-term plans are updated frequently, and any changes in the outlook of these funds are brought to the City Council's attention through the budget, mid-year analysis, and other financial reporting processes currently in place.

FISCAL IMPACT

Authorization of the budget amendments described in this report update the previous allocation of City resources for the 2020-21 fiscal year, reflecting changes in economic conditions and the City's current operations and fiscal year-to-date performance. The City Council may consider revisions to the mid-year adjustment in the attached budget resolution, and/or additional amendments to the FY 2020-21 budget. The overall goal is to provide the most accurate picture of the 2020-21 fiscal year's standings in preparation for the FY 2021-22 budget, and to assist decision makers in planning for the City's needs in the long-term.

Exhibit:

- Mid-year Budget Amendments Resolution

City of Burlingame
FY 2020-21 Mid-year Report
Attachment A – General Fund Revenues

Property Taxes – The San Francisco Bay Area housing sector has been a sustaining factor in the local economy throughout the most difficult of past economic downturns. Property tax revenues leveled off in fiscal years 2010-11 and 2011-12, but have increased by 70.5 percent since that time, and 39.9 percent in the last five years. Assessed property values continue to rise, increasing 11.52 percent in the past year, after rising 7.28 percent in the prior year. Despite the pandemic, the local housing market remains quite strong, though experiencing a persistent lack of inventory. Mortgage/lending rates are extremely low, and recent years have seen a renewed interest in both residential and commercial real estate development.

Property tax rolls are established prior to the beginning of the fiscal year. In FY 2020-21, Burlingame's roll value (land and improvements) has increased 3.6 percent, including an inflationary factor of 1.01036 applied to all California property assessments. This is below the 4.68 percent growth experienced in the rolls at this time last year. The decrease is largely due to the fact that the maximum inflationary factor of 1.02 was applied to the roll last year. As shown in the chart below, the preponderance of the City's property tax revenues (over 70 percent) comes from secured property taxes, which are established by the tax rolls and diminished only through refunds on successful appeals to the County Assessor's Office.

CITY OF BURLINGAME, CA
PROPERTY TAXES

	FY18-19 Actual	FY19-20 Actual	FY20-21 Current Adjusted Budget	FY20-21 New Projection	FY20-21 Midyear Amendment	Adjustment Up (Down) %
Current Secured Property Tax	$ 14,649,598	$ 15,825,904	$ 17,573,000	$ 17,700,000	$ 127,000	0.7%
Secured Supp. Property Tax	516,148	422,675	491,000	450,000	(41,000)	-8.4%
Current Unsecured Property Tax	755,835	794,143	821,000	800,000	(21,000)	-2.6%
Property Tax in Lieu of VLF	3,465,699	3,583,335	3,560,000	2,832,000	(728,000)	-20.4%
ERAF Refund	2,252,373	2,374,327	2,375,000	2,557,000	182,000	7.7%
Unitary Tax	316,284	304,019	316,000	320,000	4,000	1.3%
Total, Property Taxes	**$ 21,955,938**	**$ 23,304,402**	**$ 25,136,000**	**$ 24,659,000**	**$ (477,000)**	**-1.9%**

In FY 2019-20, actual property tax revenue receipts were within one percent of the budget (as adjusted at mid-year), representing a 6.1 percent increase in property taxes over the prior year. Revenues from secured property taxes were expected to rise approximately 11.1 percent in FY 2020-21, and the final assessed roll for Burlingame (received from the County Controller in August) indeed reflects an 11.2 percent rise over the prior year. Therefore, a slight increase in the Secured Property Taxes budget is indicated. However, revenues from unsecured property taxes (assessed on business fixtures, business personal property, boats, aircraft, etc.) fell short of the prior year budget projections, so this revenue line item should be reduced for the current fiscal year. Supplemental Property tax revenues are dependent on the volume and value of property transfers and new construction, so they vary significantly from year to year. Also based on the prior year lower-than-anticipated actual receipts, staff recommends a reduction in this line item. Unitary taxes were slightly higher than last year's projection, and are coming in at a slightly higher pace, prompting a slight upward adjustment for the current fiscal year.

Projections for Excess ERAF (Educational Revenue Augmentation Fund) refunds have varied considerably over the years. Only in recent years has this revenue line item been fully budgeted, due to the possibility that the State's school funding formulas could change and require higher draws on the County's ERAF. In years prior to the pandemic, the improved economy was having a positive effect on the County's ERAF, as the State met its obligations to educational agencies because of improved property tax revenues in the area. In fact, higher property tax revenues resulted in more funds from local agencies being held back for the ERAF, while fewer demands for education funding were being made on these funds. The full amount of anticipated ERAF refunds (nearly $2.4 million) was included in the property tax projection for fiscal year 2020-21.

Excess ERAF reserves are held by the County and distributed back to the contributing agencies when obligations of the funds to education agencies have been met. The County allocated excess ERAF funds back to the jurisdictions early in January. The City's ERAF refund for fiscal year 2020-21 was nearly $183,000 (7.7 percent) higher than the ERAF received in the prior year, reflective of continued property tax growth and reduced demands on the County's ERAF fund for school funding. This amount is $182,000 more than projected in the adopted budget for the current year.

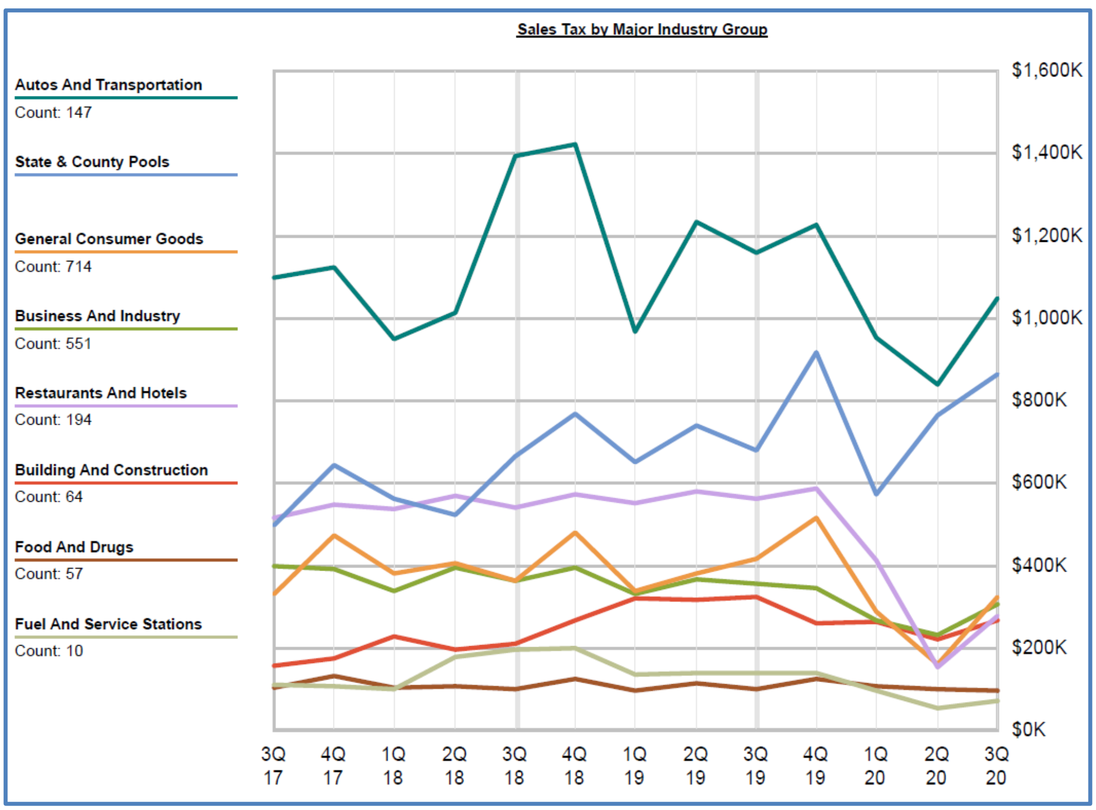
However, a significant downward adjustment ($728,000) in property taxes for the current fiscal year is recommended for Property Tax In Lieu of VLF. These revenues are allocated based on growth in the County's secured property tax roll but are funded from the countywide ERAF, and then from the property tax revenues of non-basic aid school districts. (Any monies taken from the non-basic aid school districts are back-filled by the State.) The large majority of school districts in the County are classified as basic aid, i.e, the property taxes within the district are sufficient to fund the schools, without funding from the County's ERAF fund. The number of non-basic aid school districts in the County has fallen over recent years, resulting in less available property tax revenues to fund VLF. For FY 2020-21, there are only six non-basic aid school districts, compared to seven in the prior year. The total VLF amount due to the County and cities is $222,704,555. There is only $153,215,530 available in ERAF and from non-basic aid school district property taxes to fund VLF, resulting in a county-wide shortfall of over $152 million. As there is no statutory mechanism for the State to fully reimburse cities and counties for this shortage, the County is working with its legislative advocates to request that the shortfall amounts be appropriated in the State's FY 2021-22 budget. Unfortunately, these funds will not be recovered in the current fiscal year, if at all. A backfill for the much smaller ($10.1 million) FY 2019-20 VLF County shortfall is included in the State's FY 2021-22 preliminary budget. The current year's VLF shortfall amount is subject to further adjustments based on any subsequently revised State school reports and property tax revenues.

Sales and Use Taxes – The table below shows the City's sales tax revenues over the past five years, as well as a projection for the current fiscal year. The first two line items, "Sales & Use Tax" and "Sales Tax Compensation Fund", comprise sales tax receipts from the Bradley Burns (local 1 %) allocations from the California Department of Tax and Fee Administration (CDTFA). The "Triple Flip" (a State revenue swapping scheme that began in 2004) process was wrapped up in May 2016, creating a one-time bump in sales tax revenues of nearly $1 million for that fiscal year, and eliminating the need for the Sales Tax Compensation Fund. The addition of the City's Measure I tax, which was effective April 1, 2018, further bolstered this revenue line item. Although Measure I revenues and expenditures are tracked internally in a separate sub-fund, they are included as General Fund transactions for financial reporting purposes. Even with these aberrations excluded, it appears that taxable sales transactions had remained healthy prior to the pandemic.

CITY OF BURLINGAME, CA
HISTROICAL SALES AND USE TAXES
(amount expressed in millions)

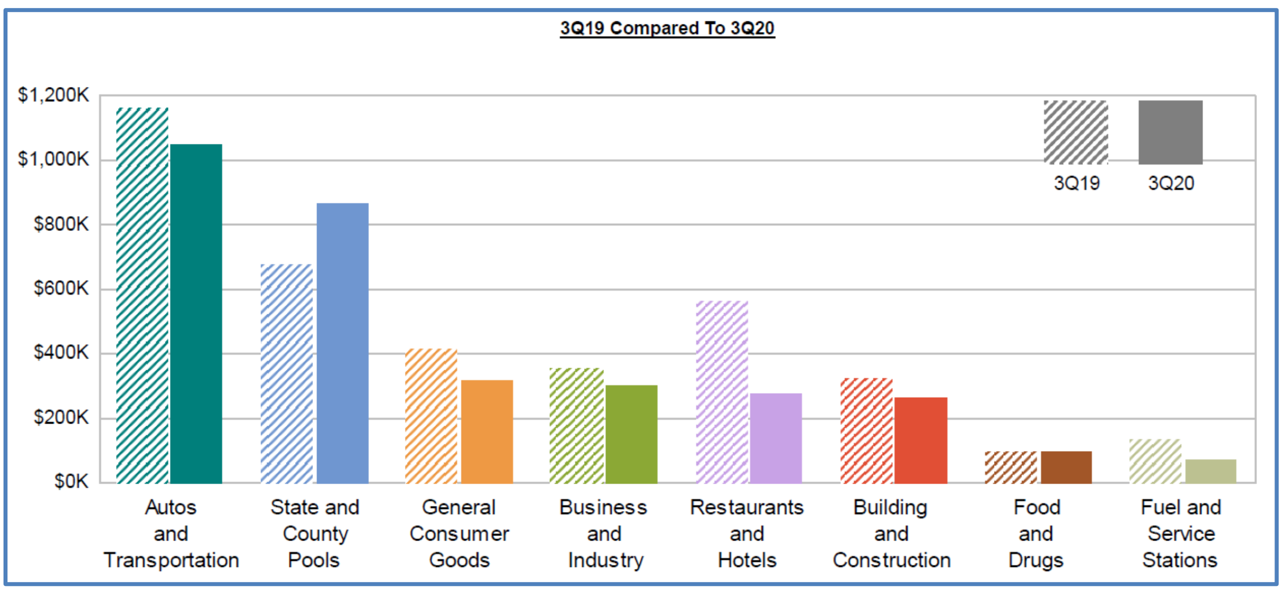
	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021 Est.
Sales & Use Tax	$ 10.20	$ 11.94	$ 12.19	$ 15.14	$ 12.35	$ 12.20
Sales Tax Compensation Fund	2.48	-	-	-	-	-
Public Safety Fund-Sales Tax	0.15	0.15	0.16	0.17	0.17	0.17
Measure I (0.25% Sales Tax)	-	-	0.47	2.51	2.28	2.20
Totals	**$ 12.83**	**$ 12.09**	**$ 12.82**	**$ 17.82**	**$ 14.80**	**$ 14.57**
Year-over-year changes %	15.6%	-5.8%	6.0%	39.0%	-17.0%	-1.5%

Sales tax revenues were most dramatically impacted by the economic shutdown resulting from Covid-19 and shelter-in-place directives, imposed just prior to the second quarter of 2020. New auto dealers, general consumer retailers, and restaurants that depend on indoor services were immediately impaired. The State allowed for a deferral of sales tax filings to help businesses struggling with unanticipated cash flow issues; this created some difficulties in analyzing sales taxes between quarters. However, the City's sales tax consultant, HdL, has adjusted the data for these aberrations to provide a clearer picture of actual economic activity behind the sales tax receipts, resulting in the charts and graphs in this report.



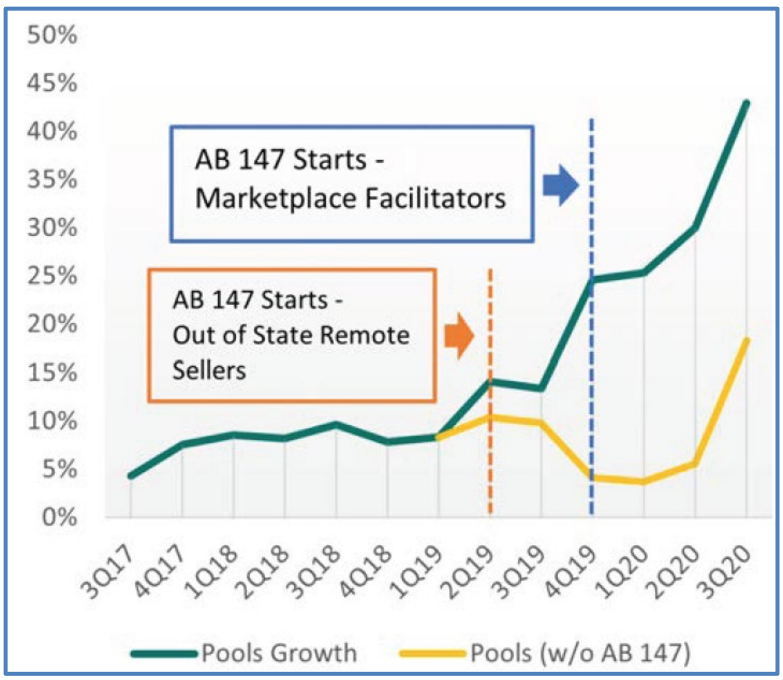
Because of the time lag in the reporting and submission of sales taxes to the CDTFA, only one quarter's data (third quarter of 2020) is available from which to project the City's FY 2020-21 revenues from this source. A review of Burlingame's third quarter data for 2020 (taxes remitted to the CDTFA in October – December 2020) indicates a decline in taxable transactions of approximately $479,000 (12.8%). Nevertheless, these numbers reflect a significant recovery from the disastrous first two quarters of 2020.

This was the second full quarter impacted by the pandemic, with local point of sale receipts down 21.7% *compared to the same period the prior year*. The City's restaurants declined 50.6%, with many eateries closed or only able to provide limited services as a result of the pandemic shutdowns. Fuel and service station receipts were also depressed as the cost of gas and overall consumption remains low (down 57.4%). As an offset, the City's share of the countywide use tax pool allocations jumped 27.4% over the prior-year period. The gain was boosted by a combination of new taxes on out-of-state purchases from full implementation of AB147 (Wayfair), surges in online spending tied to the pandemic crisis, and the use of federal stimulus funds by households. This component of local sales tax receipts is the only category of taxable transactions exhibiting growth over the past pandemic year; and constitutes a larger portion of total sales tax revenues than ever before. Note that use tax is the responsibility of the buyer rather than the seller and does not involve a California "point of sale".



Although $3.0 million less than reported for the prior fiscal year, sales tax revenues came in approximately $573,000 higher than the adjusted budget of $14.2 million in the fiscal year ended June 30, 2020. Looking forward, these revenues are expected to be much stronger than initially anticipated for the current fiscal year. The retail auto industry – Burlingame's largest sales tax generator – rebounded somewhat in the third quarter of 2020. Record low interest rates, a recovering economy, and fears surrounding ridesharing and mass transit are expected to support the market in the near term. Other core retail segments continue to show large contractions in point-of-sales transactions, as diminished foot traffic, continued in-store limitations (albeit less restrictive than in the prior year), and the accelerated shift to digital shopping will continue to put downward pressure on retail sales. An uptick in restaurant dining is expected early in the summer, although taxable transactions from the hotels are not expected to begin until well into FY 2021-22. Because of its heavy reliance on tourist foot travel from the hotels, Burlingame's downtown areas may not fare as well as other parts of the County in the recovery of sales tax receipts. Promotions to "shop local" may help offset the loss of tourists.

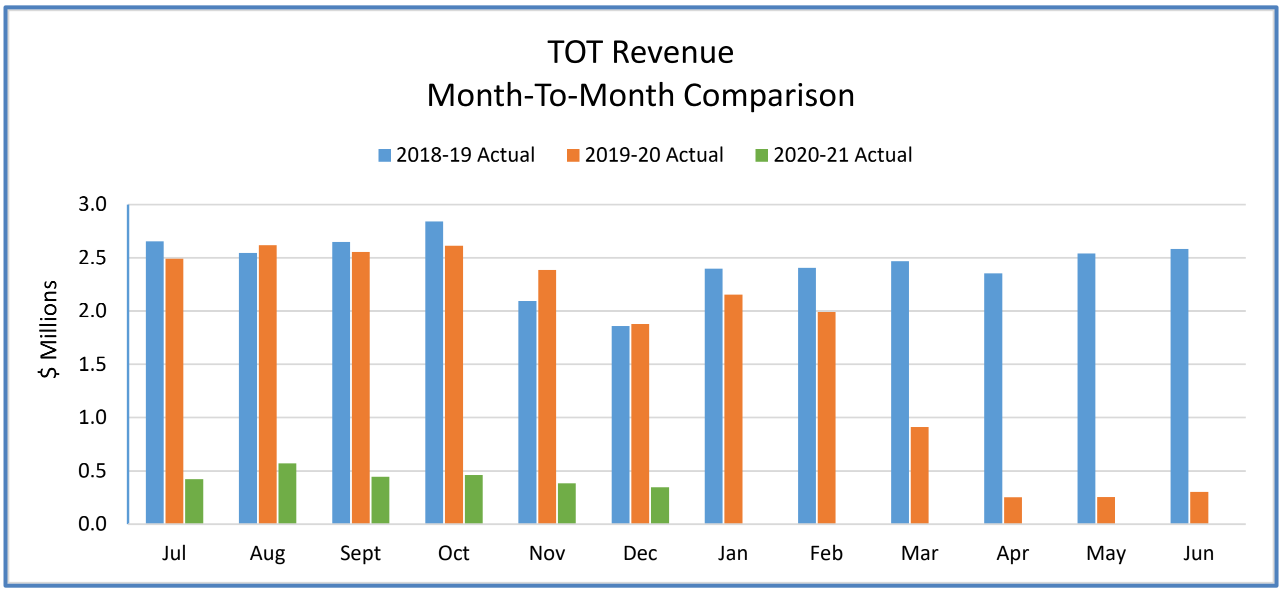
Allocations from state and County pools should continue to increase. When measuring results from the fourth quarter of 2019 through the third quarter of 2020, the pools have averaged (statewide) growth of 31 percent each quarter compared to the same period in the prior year. Much of this growth is due to Assembly Bill 147, which requires out-of-state retailers meeting specific requirements to collect and remit California's sales, use, and transactions taxes effective April 1, 2019; however, marketplace facilitators were not required to begin reporting until October 1, 2019. This new local tax revenue is allocated indirectly through the county-wide use tax pools system. HdL has reviewed and tracked the AB 147 impacts – shown in the chart below. Looking ahead, future gains in this sector are expected to subside to levels moderately better than historical levels.



The City's FY 2020-21 adopted budget assumed a 15.7 percent further decline in sales tax revenues from prior year actuals, as the City braced for further impacts from the pandemic. But year-to-date receipts indicate that sales and use tax revenues are not experiencing the sharp decline anticipated. Prior-year revenues in this category exceeded the adjusted budget by approximately four percent, and sales activity recovered more than anticipated shortly after the initial shock of the second quarter of 2020. The new projection for these revenues in fiscal year 2020-21 is nearly $14.6 million, a $2.6 million increase from the adopted budget. This budget adjustment includes an increase of $550,000 from Measure I transaction taxes. These adjustments bring the FY 2020-21 projections in line with those suggested by the City's sales tax consultant; the decrease in these revenues is anticipated to be limited to 1.6 percent when compared to the prior fiscal year's results.

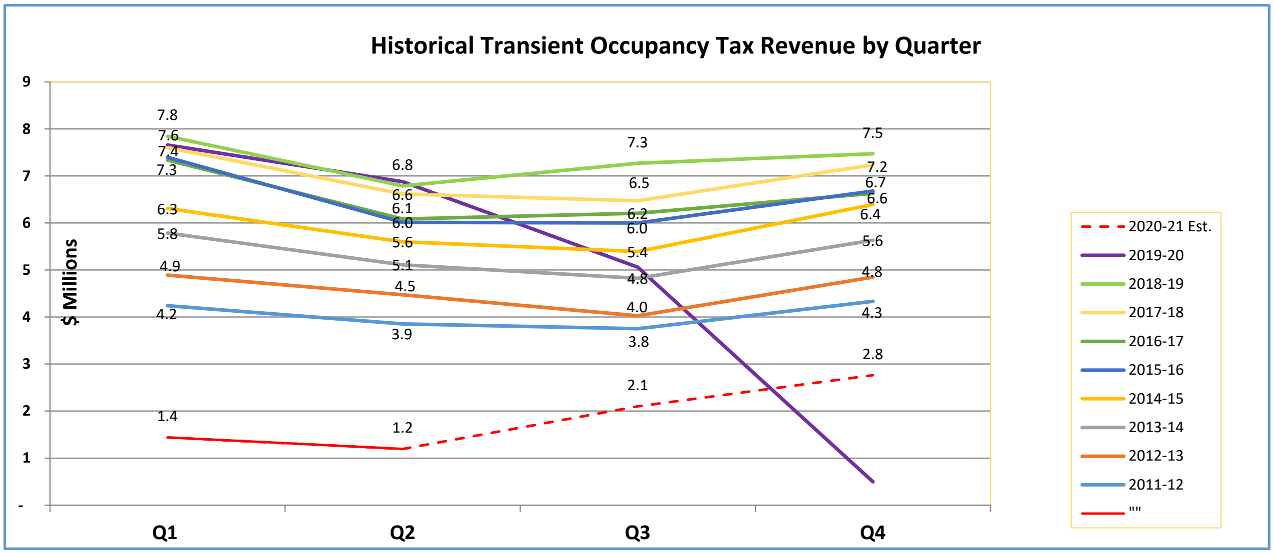
Transient Occupancy Taxes (TOT) – TOT revenues have, until the current fiscal year, constituted Burlingame's largest General Fund revenue source. TOT revenues are reported and paid to the City each month (for the prior month), so results through December 31, 2020 have been collected as of the time of this report.

The graph below shows the rapid and sharp decline in these revenues as international air traffic began to slow early in 2020, and the progression downward as the pandemic brought most travel-related activities to a halt. Burlingame hotels, which had experienced very high occupancy rates in past years, were forced to cut staff, shutting off floors and even suspending operations for whole hotels. Many area hotels experienced single-digit occupancy rates in April and May. In an attempt to slow transmission of the virus, the County leased some hotel rooms in order to offer health care workers and patients an alternative to returning home. Other hotels are being used to alleviate the density in homeless shelters, where the virus can also spread rapidly. But this temporary re-purposing of rooms does nothing to help the hospitality industry or the economy as a whole.



The budget for FY 2020-21 was established based on TOT collections through March 2020, when 2019-20 fiscal year-end results were projected to be approximately $20 million, reflecting a 34.2 percent decline over the prior fiscal year due to the adverse impacts of the COVID-19 virus on the travel and hospitality industry in the last four months of the fiscal year. However, the health scare was anticipated to pass, and tourism was expected to regain strength by the end of calendar year 2020. Actual revenues reported for FY 2019-20 were slightly above the conservative projection. But with a resurgence of the virus during the summer and again over the holidays, hotel occupancy in the cty continues to be constrained to this day. TOT receipts have improved only mildly since April last year, the combined result of very low occupancy and greatly diminished average room rates.

Burlingame hotels reported an average occupancy rate of 34.6 percent between July and December 2020, compared with 89.4 percent occupancy for the last 6 months of the 2019 calendar year. And the ADR (average daily rate) of area hotels is down approximately 43 percent.



Per an update from the San Mateo County/Silicon Valley Convention and Visitors Bureau (SMCCVB), San Francisco area hotels are not faring as well as hotels nationally. The past 12 months have put incredible pressure on planners in the corporate meeting and events space, and restrictions in California have created barriers of uncertainty that other states, particularly those in the Southeast, have not had to contend with. Hotels in the Burlingame/Millbrae/SFO area are lagging behind San Mateo County overall due to the concentration of larger, full-service hotels focused on business meetings and conferences. Leisure and local travelers are showing a preference for smaller hotels, foregoing the indoor corridors and lobby areas that appeal to business groups. While it is predicted that the upcoming summer months will be better for all Bay Area hotels, an immediate bounce-back to pre-pandemic levels is not in the cards.

	Current Month - December 2020 vs December 2019											
	Occ %		ADR		RevPAR		Percent Change from December 2019					
	2020	2019	2020	2019	2020	2019	Occ	ADR	RevPAR	Room Rev	Room Avail	Room Sold
SMC Total	**36.0**	70.3	98.10	171.80	35.36	120.75	-48.7	-42.9	-70.7	-72.2	-5.0	-51.3
BEL/RWC/SC+	40.4	63.9	84.46	158.09	34.15	101.03	-36.7	-46.6	-66.2	-66.2	-0.1	-36.8
MP/EPA+	16.6	53.2	166.61	347.29	27.67	184.91	-68.8	-52.0	-85.0	-86.4	-9.4	-71.7
BRI/SSF/SB+	49.6	72.9	77.68	137.64	38.50	100.34	-32.0	-43.6	-61.6	-66.8	-13.5	-41.2
Coast Side +	27.7	57.7	231.03	260.85	63.93	150.49	-52.0	-11.4	-57.5	-57.5	0.0	-52.0
BUR/MIL/SFO+	**28.8**	80.3	102.95	166.38	29.68	133.59	-64.1	-38.1	-77.8	-77.8	0.0	-64.1
SM/FC+	35.0	64.3	95.04	172.70	33.25	111.07	-45.6	-45.0	-70.1	-72.4	-7.8	-49.8

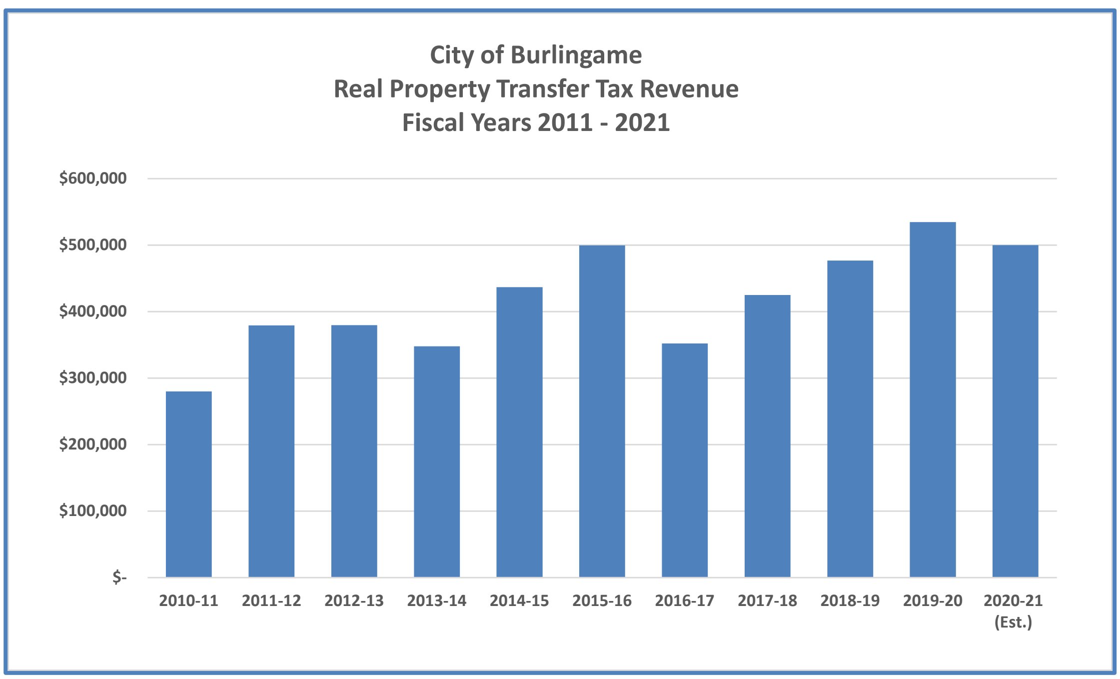
It is difficult to predict when corporate travel to the west coast will resume. Whereas six months ago, events and conferences were being put on hold, corporate planners are no longer attempting to reschedule such arrangements. In fact, the clearest signal of future business events is from employers who have told workers not to come back to the office in 2021. Data from CBRE Hotels Research indicate that occupancy rates for hotels in the San Francisco Bay Area will not return to 2019 levels until 2024, and ADR rates will not achieve comparable levels until calendar year 2025.

In the meanwhile, April and May will be a telling period for the area's hotels. With little support from corporate planners anticipated in the near future, the SMCCVB will continue to promote the area's great location, outdoor spaces and activities, and its proximity to the wine country and coast ("Beach to Bay" campaign). Staff has recommended a $6.5 million downward adjustment in TOT revenues for the current fiscal year. The adjustment will leave the FY 2020-21 projection at $7.5 million, approximately one quarter of the revenue achieved in FY 2018-19 from this source. In the five-year forecast, a jump to $13.5 million serves as a placeholder for FY 2021-22, with gradual recovery anticipated through the remaining years of the forecast.

Other Taxes – A number of other sources provide tax revenues to the City's General Fund. Although they are consolidated for reporting purposes, prior-year actual amounts and the current year activity for each source have been reviewed for the most accurate projection of FY 2020-21 year-end results.

Real Property Transfer Tax – The City receives property transfer tax revenue the month following a real property transaction, splitting the 0.11 percent tax evenly with the County. Although improved home values have pushed these receipts higher in recent years, property turnover in the area continues to be relatively low. Month-to-month variation in real estate sales makes this revenue difficult to project, as the sales of significant properties can cause "spikes" in the amount of taxes collected.

Burlingame ended the 2019-20 fiscal year with property transfer tax revenues of nearly $535,000, an increase of 12.1 percent over the prior year. Receipts for the first half of the current fiscal year are keeping pace with the rate of the prior year with a slightly higher number of real property sales transactions. So the current year $400,000 budget for this line item appears to be low. Due to the variability in real estate sales, a conservative increase of $100,000 to this budget line item is proposed.



Business License Tax – Year-to-date business license tax revenues appear to be keeping pace with last year's rate, even though the due date for the FY 2020-21 license renewals was delayed until September 31st (rather than the normal July 31st deadline). An uptick in the number of new businesses, particularly out-of-town architects and contractors, has been noticed. In addition, evidence of a current local business license, required on payroll protection grants, has had a positive effect on this revenue source.

However, while revenue from the volume of annual business licenses remains steady, revenues from airport parking enterprises are quite diminished. Although receipts from this special business license tax (5 percent of revenues) had already experienced moderate declines in recent years as ride-sharing services became more prevalent, the pandemic's impact on the travel industry in general and airline travel in particular has ravaged this revenue source, which in prior years has comprised over 40 percent of business license taxes for the City. Year-to-date receipts show an 81.6 percent decline over the same period last fiscal year. Therefore, a reduction of $100,000 in the projection for this special business license revenue is proposed. After this adjustment, the City's business license revenue budget in total ($680,000) for the current fiscal year represents a 22.6 percent decrease from the 2019-20 fiscal year results.

Note that while a higher volume of licenses might be expected in a growing economy, the cost of an annual business license in Burlingame is small ($100 for most businesses). The rate was established by ordinance in 1978 and has not been adjusted since 1993. Therefore, the business license tax remains a relatively small and somewhat fixed revenue source for the City.

Franchise Fees – The largest category of Burlingame's franchise fees is derived from the regional garbage hauler (8 percent of revenues), and is collected and remitted monthly. Due to the costly challenges and increasing environmental regulations facing the industry, the City Council approved solid waste rate increases for three calendar years (effective January 1, 2019, 2020 and 2021). However, franchise fees from the garbage utility totaled only $768,000 in FY 2019-20, a slight decrease from the prior year, despite the increase in rates. The pandemic and the resulting limits on commercial activities has greatly changed the service volumes for trash, recyclable items, and green waste (yard waste/compost.) As a result, service frequency and volumes for commercial accounts have been reduced by over 22 percent. While residential service volumes have increased somewhat (7.2%), overall service demand is down, and revenues are coming in at about 10 percent lower than last year, based on the first seven months of the current fiscal year. A reduction of approximately this magnitude was anticipated in the City's solid waste franchise fee revenues in FY 2020-21, so no adjustment is considered necessary.

Franchise fees for the provision of gas and electric utilities were slightly over the estimated budgets in FY 2019-20. The adopted budget reflects no change from the prior-year actual receipts, as there was very little data available to measure the impact of the pandemic on utility service demands. However, a preliminary analysis of Bay Area counties finds that total demand is slightly less than it was a year ago, and that decrease in demand is driven by the commercial sector. Within the commercial sector, Accommodation and Food Services continue to experience a very large reduction in demand. Though electric and gas usage likely increased for many residential customers as they practiced social distancing and stayed at home, it is likely that the City franchise fee revenues will fall short of last year's totals. Staff recommends a 10 percent ($42,400) reduction in the gas and electric franchise fee revenue for the current fiscal year. These revenues for the calendar year 2020 will not be received until April. The state Public Utilities Commission approved higher rates (approximately 4.6% higher) for PG&E utilities effective March 1, 2021.

Staff also proposes downward adjustments for cable and video franchise fee revenues, reflecting a continued decline in demand for these services.

CITY OF BURLINGAME, CA
FRANCHISE TAXES

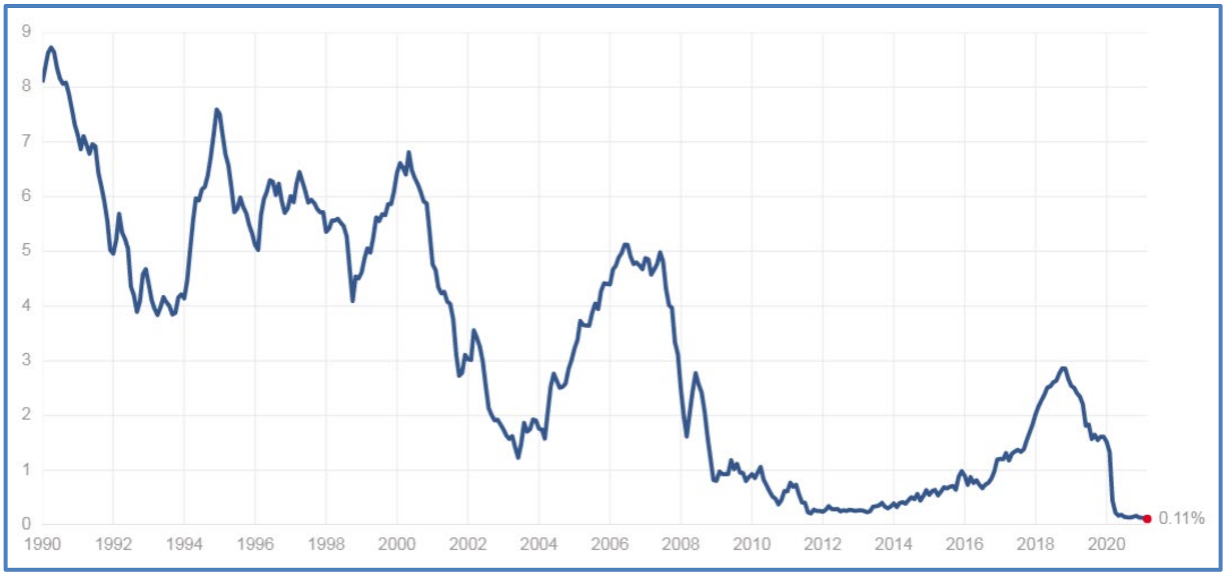
	FY18-19 Actual	FY19-20 Actual	FY20-21 Current Adj. Budget	FY20-21 New Projection	Budget Amendment	Adjustment Up (Down) %
Gas	$ 129,951	$ 136,503	$ 136,200	$ 122,600	$ (13,600)	-10.0%
Electric	268,927	287,534	288,000	259,200	(28,800)	-10.0%
Garbage	743,450	768,035	740,000	740,000	0	0.0%
AT&T Cable TV	433,554	389,825	390,000	370,000	(20,000)	-5.1%
Wave Astound	23,979	20,288	25,000	20,000	(5,000)	-20.0%
AT&T Video Service	76,031	59,212	62,000	50,000	(12,000)	-19.4%
Total, Franchise Taxes	**$ 1,675,891**	**$ 1,661,397**	**$ 1,641,200**	**$ 1,561,800**	**$ (79,400)**	**-4.8%**

Licenses and Permits – General Fund revenue in this category consists largely of alarm and overnight parking permit fees, along with taxicab licenses. With a budget of less than $80,000, these receipts account for a very small part of total General Fund revenues. Legislation effective January 1, 2019 allows local regulatory fees on taxicabs only in the jurisdiction where they are "substantially located", significantly reducing the volume of applications for taxi licenses. With a current year budget of $60,000, alarm permit fees now account for the vast majority of this revenue category.

Fines, Forfeitures and Penalties – This category consists largely of revenue from parking citations and vehicle code violation fines; both have been difficult to project during the pandemic. Prior-year parking citation revenue decreased due to the removal of parking fees when the initial shelter-in-place orders were issued. While well below the $1.1 million for this revenue in fiscal year 2018-19, the FY 2019-20 total of $713,710 was higher than anticipated for this line item. The Police Department has refined their current-year projections to again reflect a higher volume of parking citations, and recommends a $115,000 budget increase (to $615,000). Vehicle code fines, however, are coming in well below prior-year results, and should be adjusted downward $25,000, to one-half of the projection previously included in the FY 2020-21 budget.

Investment Income – Burlingame's investment portfolio is comprised of only the safest of securities (the highest priority of the City's investment policy is preservation of capital). Yields on municipal portfolios dropped steadily following the 2008 market downturn and have remained comparably low, rising only slightly in recent years. As incoming economic data underscored the coronavirus' devastating blow to the U.S. economy, treasury yields plunged in April 2020; the two-year hit a low of 0.195 percent, its lowest level since September 2011. To enable monetary recovery from the public health emergency, the Federal Reserve implemented monetary policies to provide liquidity and stabilize financial markets and keep credit affordable and inflation in check. Yields continue to hover at historic lows; the rate as of February 23rd was 0.11 percent.

2 Year Treasury Rate



Maintaining its focus on safety and liquidity, the City maintains funds in the State's Local Agency Investment Fund (LAIF) and the California Asset Management Program (CAMP). CAMP and LAIF are permitted investments for all local agencies under California Government Code §53601(p). Although both pools have similar terms and offer daily liquidity, many public agencies use both LAIF and CAMP funds in order to diversify the liquid portion of their investment holdings. As LAIF has offered a significant yield advantage for the past 11 months, the City has allowed these holdings to grow, drawing on CAMP funds as needed for efficient cash flow.

Main Portfolio Earnings Analysis
As of December 31, 2020

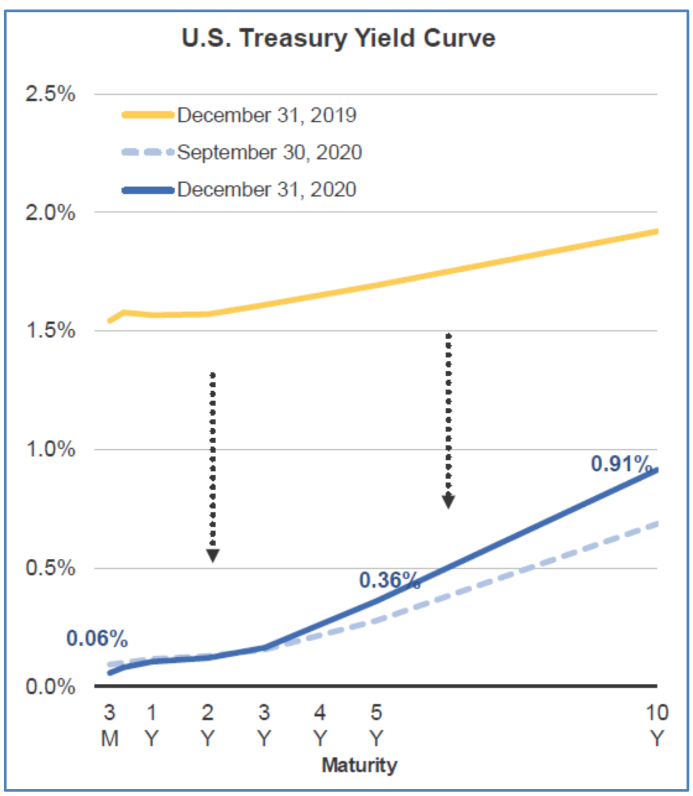
	Q1 2020	Q2 2020	Q3 2020	Q4 2020	Past Year
Interest Earned	$655,300	$626,601	$562,367	$510,150	$2,354,418
+ Change in Value	$2,628,194	$1,033,951	-$254,000	-$259,292	$3,148,853
= Portfolio Earnings	$3,283,494	$1,660,552	$308,367	$250,858	$5,503,271
Total Return %	**2.73%**	**1.35%**	**0.25%**	**0.20%**	**4.58%**
Quarter-over-Quarter Change in 2-Year U.S. Treasury Yield	**-1.32%**	**-0.07%**	**-0.03%**	**-0.01%**	**-1.43%**

Notes:
- *Performance on a trade-date basis, gross (i.e., before fees) in accordance with the CFA Institute's Global Investment Performance Standards (GIPS).*
- *Quarterly returns are presented on an unannualized basis.*
- *May not sum to total due to rounding.*

In this midyear report, staff takes the opportunity to adjust the budget for interest income projections. Income from the City's investment holdings has always been difficult to forecast due to the requirement to "mark-to-market" the portfolio at each year end. As shown in the chart above, the change in market value has a significant impact on the reported earnings of the portfolio. A yield to maturity at cost on the main portfolio of securities was 1.62% as of December 31, 2020, compared to a "total return" of 4.58 percent if the change in the portfolio value is included.

For this reason, the City's budget reflects investment income *with the mark-to-market adjustment removed* for all funds. Such treatment recognizes that the City typically holds its investments to maturity, and removes the uncertainty of the market place from the City's revenue forecasts. Therefore, "actual" interest income received in the prior year has been restated to reflect earnings unadjusted for market value as of June 30, 2020, and budgets have been established to reflect interest earning prior to the market adjustment at year end.

The City has contracts with PFM Asset Management, LLC. for outside investment advisory services. PFM assists in the annual review of the City's ongoing cash flows and investment goals, and recommends any appropriate revisions in the investment policy. The managed portfolio's benchmark is the Bank of America Merrill Lynch 1-5 Year U.S. Treasury Index, with a duration of 2.59 years. The market value of the portfolio as of December 31, 2020, was $198.6 million, consisting of a $125.2 million managed pool of top-rated securities, $72.8 million in the State Local Agency Investment Fund (LAIF), and $0.6 million in the California Asset Management Program (CAMP). The City's aggregate investments (including the very liquid investments in LAIF and CAMP) averaged a yield to maturity of 1.25 percent.



This aggregate yield to maturity on the City's investments is significantly lower when compared to the 2.22 percent reported in last year's mid-year analysis. LAIF, which holds the majority of the City's idle cash, was yielding 0.54 percent, down from 2.04 percent one year ago (average monthly yield in December). CAMP earned an annualized rate of 0.12 percent in December – the same as the yield on 2-year Treasury notes. Note that as of December 31, 2019, the U.S. Treasury yield curve was significantly higher in all durations; yields are now lower across the range of maturities. Coupled with the expectation that cash balances will decline in nearly all funds in the current fiscal year, revenues from the City's investments in total are anticipated to be significantly reduced from interest earnings of the prior fiscal year. These mid-year adjustments will provide a more accurate projection of interest earnings to the various funds for future budgets.

The City's short-term investments are selected for safety above yield, and long term investments are based on a consistent program of funding, with portfolios that balance risk and return. These solid investment plans should not be altered to respond to the volatilities in the markets. Given the uncertainties of the current market, the City and its investment advisors will maintain durations in line with benchmarks. And although the City's fund are invested in high credit quality investments and continue to meet the City's goals of safety, liquidity and yield, interest earnings cannot be relied upon as a critical part of the government's operating revenue stream.

State Subventions (Intergovernmental Revenues) – This revenue line item in the General Fund usually includes the State's COPS (Citizens' Option for Public Safety) program revenues and any other small grants. COPS funds are allocated to the counties and then distributed to the various agencies within each county, with a minimum of $100,000 to each law enforcement jurisdiction. Burlingame has received an increased allocation of COPS funding in recent years, and year to date this allocation is running fairly level with last year, which totaled nearly $156,000. Therefore, a $15,000 increase in COPS funding is projected for the current fiscal year.

Charges for Services – As seen in the chart below, most departments generate some amount of receipts in this revenue category. With a revised budget of nearly $4.4 million, these receipts account for approximately 7.7 percent of Burlingame's total General Fund revenues.

CITY OF BURLINGAME, CA
CHARGES FOR SERVICES BY DEPARTMENT

By Department	FY18-19 Actuals	FY19-20 Actuals	FY20-21 Current Budget	FY20-21 New Projection	FY20-21 Budget Amendment	Adjustment Up (Down) %
Police	$ 91,570	$ 617,948	$ 75,000	$ 752,900	$ 677,900	903.9%
Parks	127,470	103,817	160,000	250,000	90,000	56.3%
Recreation	3,374,909	2,067,907	2,250,000	900,000	(1,350,000)	-60.0%
Aquatics	697	12,056	220,000	25,000	(195,000)	-88.6%
Planning	1,057,703	650,086	887,000	982,000	95,000	10.7%
Public Works	861,185	1,267,341	681,000	813,000	132,000	19.4%
Library	759,320	741,253	725,000	675,000	(50,000)	-6.9%
Other	9,315	10,826	9,000	9,000	0	0.0%
Total, Departmental Fees	**$ 6,282,169**	**$ 5,471,234**	**$ 5,007,000**	**$ 4,406,900**	**$ (600,100)**	**-12.0%**

General Fund revenues in this category increased considerably in FY 2018-19 compared to the previous years, due largely to an increase in development services rendered from the Planning Division and Public Works Department. Recreation programs also continued to gain in popularity.

However, the pandemic altered service delivery in all departments. These revenues were healthy for the first eight months of fiscal year 2019-20, but some services (such as recreation programs) were severely thwarted by the regulations aimed at slowing the spread of the virus. The current year's projected budget for these fees assumed that most programs and services would recover by mid-year, but recovery has not been possible in all departmental areas.

Based on year-to-date volumes of ongoing application and permit activity, Planning fees in total are anticipated to be only a bit less than experienced in the very active fiscal year 2018-19. An upward adjustment of $135,000 will bring the budget line item for general planning fees to $585,000, approximately double the amount experienced last year. Zoning/plan checks (performed within the Planning Division), will also outpace last year's activity, just slightly less than anticipated in the adopted budget – a downward adjustment of $40,000 is in order.

The Public Works Department is experiencing a slightly higher-than-anticipated volume of requests for engineering services related to development projects. Revenues to date indicate that these revenues, while greatly reduced from last year, will approximate $813,000 by year end, so an upward budget adjustment of $132,000 for these revenues is recommended for the current fiscal year.

In February of 2020, the Library Board of Trustees unanimously passed a motion to eliminate all overdue late fees for Burlingame card holders. However, these revenues were not adjusted in the development of the current-year budget. Although replacement fees for lost or damaged items are still accepted, these receipts are not material to the Library's revenue budget. In addition, meeting room fees have not been generated since the closure of the Library. Together, these items necessitate a $20,000 decrease in Library services revenue. Passport intake fees, originally budgeted at $30,000, will not be realized. State Department security protocols dictate that these services be done in person, requiring conditions that are not possible given the Library's closure to the public.

Receipts from recreational services in fiscal year 2018-19 were nearly $3,375,000, due to the continued demand for recreational offerings. A decrease in revenues was anticipated in the FY 2019-20 budget due to the need to vacate the Recreation Center at mid-year and move certain classes and programs to other sites. However, the toll of the pandemic on recreational activities could not be anticipated; a majority of Recreation programming was cancelled for the fiscal year. A new projection of $900,000 in recreation fees results in a $1.35 million downward budget adjustment for this revenue. The pandemic has also impacted how the Burlingame Aquatic Center pool is used and the pass-through funds associated with that use. The City is paying for the operating costs of the pool, with no pass-through revenue from the BAC (Burlingame Aquatics Club). The only "revenue" that will be received for this line item will be a reimbursement (estimated to be approximately $25,000) from the Burlingame School District of 50 percent of the water and sewer costs associated with the pool's operation, per the joint operating agreement with the District. In the Parks Division, fees for services should be increased to reflect revenues that should have been realized in FY 2019-20, but were received in the current fiscal year. New business processes prompted by the implementation of the City's new financial system will ensure that future revenues are booked in the proper fiscal year.

As in the prior fiscal year, a significant adjustment is recommended to the General Fund revenue projections for the Police Department. The adjustment is an increase in reimbursement revenues of $700,000, which is about $140,000 less than the amount of "special police services" provided by the department in FY 2019-20 for an additional public safety presence near the downtown Apple Store. The additional presence was discontinued early in 2021, and the store has been reconfigured for security purposes. But the additional police presence is still desired and has been resumed. The City charges for full cost recovery for these services; the largest offset to this revenue budget is an increase in overtime costs in the Police Department.

City of Burlingame
FY 2020-21 Mid-year Report
Attachment B – General Fund Expenditures

The following table shows the FY 2020-21 mid-year assessment of departmental (operating) General Fund expenditures:

CITY OF BURLINGAME, CA
SUMMARY OF GENERAL FUND EXPENDITURES

	FY18-19 Actuals	FY19-20 Actuals	FY20-21 Current Budget	FY20-21 New Projection	FY20-21 Budget Amendment	Adjustment Up (Down) %
By General Fund Program						
General Government	$ 5,513,693	$ 6,482,228	$ 7,118,647	$ 7,075,747	$ (42,900)	-0.6%
Public Safety						
Central County Fire (Burli	11,042,679	11,665,836	12,569,737	12,569,737	-	0.0%
Police & Dispatch	16,715,751	17,017,432	17,588,232	18,011,333	423,101	2.4%
Public Works	5,934,117	5,987,479	7,073,458	7,258,558	185,100	2.6%
Community Development	1,709,736	2,197,979	2,645,968	2,629,668	(16,300)	-0.6%
Leisure & Culture						
Aquatic Center	267,212	44,177	480,000	480,000	-	0.0%
Library	5,348,120	5,626,876	5,972,001	5,426,166	(545,835)	-9.1%
Parks & Recreation	9,231,799	9,183,457	10,007,636	8,993,586	(1,014,050)	-10.1%
Total Expenditures	**$ 55,763,107**	**$ 58,205,462**	**$ 63,455,679**	**$ 62,444,795**	**$ (1,010,884)**	**-1.6%**

Although some of the proposed mid-year budget amendments are off-set within each department or division, they are described in detail below to illustrate changes in operations that were not anticipated at the time the FY 2020-21 budget was adopted.

CITY OF BURLINGAME, CA
SUMMARY OF GENERAL FUND EXPENDITURES

	FY18-19 Actuals	FY19-20 Actuals	FY20-21 Current Budget	FY20-21 New Projection	FY20-21 Budget Amendment	Adjustment Up (Down) %
By Expense Categories						
Salaries & Wages	$ 18,005,210	$ 19,080,567	$ 20,394,956	$ 20,246,633	$ (148,323)	-0.7%
Benefits	10,970,167	12,156,450	13,376,968	13,124,163	(252,805)	-1.9%
Operating Costs	22,478,484	22,656,895	24,950,710	24,340,954	(609,756)	-2.4%
Internal Services	4,177,333	4,170,252	4,570,045	4,570,045	-	0.0%
Capital Outlay	131,913	141,298	163,000	163,000	-	0.0%
Total Expenditures	**$ 55,763,107**	**$ 58,205,462**	**$ 63,455,679**	**$ 62,444,795**	**$ (1,010,884)**	**-1.6%**

General Fund Personnel Costs

The challenge of any public sector agency is to provide competitive salary and benefit packages in order to recruit and retain quality talent, while keeping the cost of providing these packages at a reasonable and sustainable level. Negotiated or imposed contracts in years since the Great Recession have resulted in significant savings in recent years and have assisted in achieving structural benefit changes that will help control future employee benefit costs. For example, Burlingame employees pay a portion of the employer's retirement rate in addition to the employees' rate, as well as a larger portion of their health care premiums. Retiree medical benefits have been altered – the City provides for a defined contribution health care program as opposed to the defined benefit plan that resulted in unfunded OPEB liabilities. Provisions for the payout of sick leave hours have been curtailed. Although many of these savings are evident in recent-year budgets, the savings from some of these actions will not be realized in full for many years. Still, the costs of prior-year pension obligations are anticipated to grow significantly in the next five years, which will put added pressure on personnel costs in future operating budgets. All these factors are considered in the five-year forecast.

In the more favorable economic environment of recent years, compensation increases were anticipated to keep up with cost-of-living indexes. However, the very tight labor market in the Bay Area has required public agencies to compete with the private sector for manpower. As the employment needs of the City change, management strives to attract, retain, and develop a highly skilled workforce to meet the City Council's goals. Turnover is lower in the current pandemic environment. Last year, much of the City's casual (part-time and seasonal) work-force was furloughed in April and eventually terminated in May, contributing to a rather large positive variance in personnel costs for fiscal year 2019-20. The cost of casual employees was included in the current fiscal year budget, as the need for this work force was anticipated to resume when the public health crisis ended.

The Library and Parks and Recreation Departments utilize the highest number of casual employees; service offerings in these departments are not anticipated to restart prior to the end of the fiscal year. In order to provide a more accurate projection of personnel costs in the current fiscal year, budget amendments to reduce the cost of casual employees are recommended. Personnel costs in the Library are estimated to be nearly $482,000 less; the personnel budget for the Parks and Recreation Department should be reduced by $98,000.

An amendment also needed in the area of salaries and wages is the increase ($431,000) in the Police Department's overtime budget to provide sufficient detail for the continued special police services on Burlingame Avenue. As previously mentioned, the City charges for full cost recovery for these services.

Savings were identified in the personnel budgets of all operating funds in the appropriations for current employees' health care premiums, as described previously. Citywide, the cost line of this line item is expected to be $301,800 less than provided in the current budget ($215,000 less in the General Fund alone.)

Because personnel budgets are based on full occupancy (no vacancies) of permanent positions, budgetary savings will occur in most every department. However, personnel cost savings due to vacancies are difficult to estimate and vary by departments and programs, so no budget adjustments for vacancies have been made on a City-wide basis.

Note that personnel costs (and total operating expenditures) for the General Fund have (since FY 2014-15) included contributions to the irrevocable trust fund established in October 2013 for the purpose of funding the City's retiree medical benefit obligations (OPEB). The full costs of these past and current obligations are now reflected in the departmental budgets. As best practices would dictate, the City is committed to contributing the annual required contribution to the trust fund in both good and bad financial times, using conservative, realistic assumptions that are adjusted based on bi-annual actuarial reports specific to the City's program and its participants. Unlike pension liabilities, the largest portion of the City's OPEB obligations is attributable to benefits that are no longer offered to new employees. It can therefore be considered a "closed program", and is less susceptible to volatile swings in annual contributions. OPEB charges will be decreasing slowly; the balance in the OPEB trust account was nearly $26.9 million as of December 31, 2020. With funding levels approaching 50 percent, the City has moved to a slightly more conservative funding strategy (Strategy 2) available within the California Employers' Retiree Benefit Trust (CERBT) Fund.

In addition, no adjustments are recommended to the City's pension costs (amounts sent directly to CalPERS) for the General Fund. This expense was projected to increase by 12.6 percent in FY 2020-21 and account for the largest increase in year-over-year personnel costs. Note that amounts deposited to the City's § 115 trust fund to fund future pension costs are not included as budgetary expenditures. Trust fund amounts are shown only as a restriction of fund balance.

General Fund Non-personnel Appropriation Adjustments

Total General Fund expenditures increased less than one percent ($595,000) in the FY 2020-21 budget (not including contributions to the pension trust fund) as compared with the prior year's adjusted budget. The increase in the operating budget was partly due to an increase in the cost of COVID 19 relief programs, as well as the anticipated return of the casual workforce sometime in the fiscal year. Note that debt service levels were decreased by $2 million, capital funding was curtailed to the extent possible, and operational costs were kept at bay in an attempt to soften the impact on the City's reserves. With this mid-year analysis, a decrease in the operating expenditures budget (approximately $610,000) is proposed, to better reflect operational needs anticipated for the remainder of the fiscal year. Excluding employee health care cost reductions, the adjustments are described by department, below.

General Government – The budget for this group of departments supplies the resources that support services often referred to as "administrative" activities. Although each department is bound by a separate budget, recommended adjustments are fairly minor, and they are combined in this report to give an overall context to the administrative costs of the City. The City Clerk's budget falls within this group, and a $3,500 increase is needed to fund increased noticing costs. The City Clerk's Office is utilizing a new newspaper for noticing in order to obtain more public visibility for published notices. However, the costs are much higher than with the previous publisher.

Police Safety – The Police Department experienced an unanticipated substantial increase in fees from the San Mateo County Information Services Department (ISD) for access to the CA Law Enforcement Telecommunications System (CLETS). This system is essential and provides the PD with criminal records and driving records from the State. An increase of $13,000 to the department's contractual services budget is requested. An additional appropriation is also needed for a non-budgeted payment to Intrado for required 9-1-1 maintenance. This maintenance is normally handled and paid for by the State; however, due to the pandemic, the State failed to renegotiate a new contract with their maintenance provider. The City will be submitting a reimbursement request to the State, but does not yet have a timeline for reimbursement for this expense.

Parks and Recreation – The pandemic greatly curtailed the amount of programming that could be provided by the Recreation Division over the past year, resulting in a large reduction in both part-time salaries and contractual costs associated with this unanticipated reduction in programming. The division will be able to reduce its budget for part-time wages by $97,920, and contractual expenses by over $790,000, as many activities – including enrichment programs, youth and sports camps, teen and senior programs, performing arts, music, and a variety of sports classes and lessons – had to be aborted. In addition, the division's budget for supplies and materials can be reduced by $76,000; other costs of programming, from transportation to equipment and rents, can also be decreased, for a total reduction in the division's non-personnel budget of over$878,000

Community Development Department – A $15,000 increase is needed in the Planning Division's contract services budget to fund a consultant contract to assist in the preparation of an Accessory Dwelling Unit informational and graphics booklet. In addition, a $3,000 budget request has been made to provide for the correct number of CDW Bluebeam Licenses for the City's planners. This software allow planners to collaborate with each other and finish plan checks in a more efficient manner; one license is needed for each planner. The division had long planned to switch to a paperless plan review system, but the need for planners to work from home moved the transition to an immediate need.

Public Works – The Public Works Department's Street and Storm Drain Division incurred costs ($150,000) for the rental (or purchase when available) of water wall units for the creation of downtown parklets. The parklets have allowed eateries in the City's downtown areas to convert nearby parking spaces into temporary outdoor dining areas, helping restaurants expand their floor space when indoor dining was prohibited or limited. The division also requested an additional $36,000 to cover the rental of a standby generator for the winter months at the Cowan Pump Station. The rental was deemed appropriate as the existing generator required extensive repairs, but is due for replacement as part of a current CIP project. The rented generator proved to be a cost effective and reliable option. And finally, a $25,000 increase in contractual services is requested to fund the use of an outside contractor to help with the removal of illegal dumping, such as sofas and furniture, especially during the pandemic.

City of Burlingame
FY 2020-21 Mid-year Report
Attachment C – General Fund Five-Year Forecast

Revenue Categories	2020-21 New Projection	2021-22 Forecast	2022-23 Forecast	2023-24 Forecast	2024-25 Forecast	2025-26 Forecast
Property Taxes	24,659,000	25,996,000	27,413,000	28,915,000	30,507,000	32,195,000
Sales Tax (including Measure I)	14,570,000	15,590,000	16,214,000	16,700,000	17,535,000	18,236,000
Transient Occupancy Tax	7,500,000	13,500,000	18,225,000	23,693,000	28,432,000	31,275,000
Other Taxes - Franchise Tax	1,561,800	1,597,000	1,611,000	1,647,000	1,685,000	1,724,000
Other Taxes - Business Licenses	680,000	721,000	735,000	750,000	765,000	780,000
Other Taxes - Transfer Tax	500,000	510,000	520,000	530,000	541,000	552,000
Other Taxes - State HOPTR	61,000	62,000	63,000	64,000	65,000	66,000
Licenses & Permits	71,200	71,000	71,000	71,000	71,000	71,000
Fines, Forfeitures & Penalties	650,000	683,000	717,000	753,000	768,000	783,000
Use of Money & Property	180,000	189,000	198,000	208,000	218,000	229,000
Charges for Services	4,406,900	5,288,000	6,346,000	6,663,000	6,863,000	7,069,000
Other Revenue	32,500	33,000	33,000	33,000	33,000	33,000
State Subventions	162,500	200,000	200,000	200,000	200,000	200,000
Federal COVID Relief Fund	371,871	-	-	-	-	-
Interest Income	1,508,000	1,131,000	1,154,000	1,177,000	1,201,000	1,225,000
Total Revenues	**56,914,771**	**65,571,000**	**73,500,000**	**81,404,000**	**88,884,000**	**94,438,000**
Expenditure Categories						
Salaries & Wages	(20,246,633)	(21,450,000)	(22,093,000)	(22,755,000)	(23,438,000)	(24,141,000)
Benefits	(13,124,163)	(13,925,000)	(14,687,000)	(15,265,000)	(15,873,000)	(16,374,000)
Operating Costs	(24,340,954)	(25,230,000)	(26,144,000)	(27,098,000)	(28,094,000)	(29,134,000)
Internal Services	(4,570,045)	(4,753,000)	(4,896,000)	(5,043,000)	(5,194,000)	(5,350,000)
Capital Outlay	(163,000)	(250,000)	(258,000)	(266,000)	(274,000)	(282,000)
Total Expenditures	**(62,444,795)**	**(65,608,000)**	**(68,078,000)**	**(70,427,000)**	**(72,873,000)**	**(75,281,000)**
Revenues Over (Under) Expenditures	**(5,530,024)**	**(37,000)**	**5,422,000**	**10,977,000**	**16,011,000**	**19,157,000**
Transfer In (Out)						
Transfer to CIP Project Funds	(3,209,000)	(3,160,000)	(9,805,000)	(13,835,000)	(6,555,000)	(6,505,000)
Transfer to Debt Service Fund	(2,728,338)	(3,580,400)	(3,600,700)	(3,623,500)	(3,651,060)	(3,122,700)
Transfers In (Out) - other funds	2,573,550	1,693,525	1,723,779	1,755,120	1,790,059	1,685,845
Transfer to Capital Investment	-	-	-	-	-	(3,000,000)
Change in Fund Balance before Adjustments	**(8,893,812)**	**(5,083,875)**	**(6,259,921)**	**(4,726,380)**	**7,594,999**	**8,215,145**
Adjustments						
Transfer to Pension 115 Trust	(2,250,000)	(1,856,000)	(1,279,000)	(874,000)	(504,000)	(15,000)
Net Surplus / (Deficit)	**(11,143,812)**	**(6,939,875)**	**(7,538,921)**	**(5,600,380)**	**7,090,999**	**8,200,145**

FUND BALANCE	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
General Fund Beginning Bal.	**44,826,701**	**35,932,889**	**30,849,014**	**33,589,093**	**36,862,713**	**44,457,712**
General Fund Ending Bal.	**35,932,889**	**30,849,014**	**24,589,093**	**28,862,713**	**44,457,712**	**52,672,857**
Assigned Balance:	**16,160,000**	**18,237,000**	**20,140,000**	**22,037,000**	**23,832,000**	**25,165,000**
Econ. Stability Reserve @ 24% o	13,660,000	15,737,000	17,640,000	19,537,000	21,332,000	22,665,000
Catastrophic Reserve ($2 mil.)	2,000,000	2,000,000	2,000,000	2,000,000	2,000,000	2,000,000
Contingency Reserve ($500,000)	500,000	500,000	500,000	500,000	500,000	500,000
PARS restricted cash	**13,073,849**	**14,929,849**	**16,208,849**	**17,082,849**	**17,586,849**	**17,601,849**
Unassigned Fund Balance	**6,699,040**	**(2,317,835)**	**(11,759,756)**	**(10,257,136)**	**3,038,863**	**9,906,008**

Attachment C – General Fund Five-Year Forecast

(Continued)