



DATE: November 10, 2020

CATEGORY: New Business

DEPT.: City Manager's Office
Finance and Administrative Services

TITLE: **Fiscal Year 2020-21 Budget Update and Approving Use of an Equity Lens in the Fiscal Year 2021-22 Budget Development Process**

RECOMMENDATIONS

1. Receive the Fiscal Year 2020-21 First Quarter Budget Update.
2. Appropriate and authorize the use of up to \$1.0 million in CARES Act revenues to be used for funding community needs such as additional rent relief, small business relief program, or other priorities as directed by the City Council. (Five votes required)
3. Authorize the Finance and Administrative Services Director to increase appropriations in the General Operating Fund up to the amount of Business License Tax revenue received in order to transfer 90.0 percent of the revenue generated from the restructured tax to the Transportation Reserve (80.0 percent) and the General Housing Fund (10.0 percent). (Five votes required)
4. Authorize the Finance and Administrative Services Director to increase appropriations in the VTA 2016 Measure B Sales Tax subfund up to the amount received and appropriated for capital projects. (Five votes required)
5. Approve the use of an equity lens as part of the Fiscal Year 2021-22 budget process.

BACKGROUND

Due to the continuing uncertainty surrounding the COVID-19 pandemic, staff is providing this budget update to keep Council informed of any significant changes or fluctuations in the City's financial situation since the budget was adopted in June. This report contains a summary of the Fiscal Year 2019-20 unaudited financial results for the General Operating Fund as well as a status on the Fiscal Year 2020-21 budget for the following major funds: General Operating Fund; Development Services Fund; Shoreline

Golf Links/Michaels at Shoreline Restaurant Fund; Shoreline Regional Park Community Fund; and the Water, Wastewater, and Solid Waste Management Enterprise Funds. The report will also provide details on using an equity lens as part of the Fiscal Year 2021-22 budget development process, as recommended by the Council Ad-hoc Sub-committee on Race, Equity, and Inclusion.

The General Operating Fund (GOF) is the single largest City fund and provides funding for core services, including Police, Fire, Parks, Recreation, Library, Planning, Public Works, and all City Administration functions. The City's financial health, and the GOF in particular, are shaped in large part by positive and negative economic forces. Many of the City's revenues are driven by the economic climate of Silicon Valley, the greater Bay Area, and the State.

The City declared a local emergency on March 12, 2020, and a Countywide Shelter-in-Place order began on March 17, 2020. The City's revenues have been negatively impacted since Shelter-in-Place orders began. Sales tax revenue sharply declined as nonessential businesses and some restaurants have either closed or scaled down to provide only limited service, as well as the California Department of Tax and Fee Administration's (CDTFA's) deferring the remittance of sales taxes for certain businesses. Conferences, business travel, and large-group gatherings have been halted or canceled, impacting hotel stays and reducing Transient Occupancy Tax (TOT) revenue. In addition, Charges for Service revenue has also been impacted as Recreation events and classes were canceled and refunds processed.

Due to the timing of when revenues are received and the preparation of the Fiscal Year 2020-21 Budget, staff could only make assumptions on the potential full impact of COVID-19. In making these assumptions, staff received information from the City's revenue consultants and reviewed how the City's revenues were impacted in prior recessions, taking into consideration how revenues may be impacted differently due to the unique and unprecedented circumstances of COVID-19.

ANALYSIS

Fiscal Year 2019-20 Unaudited General Operating Fund Balance

The Fiscal Year 2019-20 external annual audit of the City's financial transactions for all funds is substantially complete, and the Comprehensive Annual Financial Report (CAFR) is scheduled to be reviewed and accepted by the City Council on December 8, 2020. Unaudited numbers have been used for the purposes of this report. Additional details

will be provided in December once the audit is done, and the full report is ready for acceptance by Council.

The General Operating Fund (GOF) accounts for recurring unrestricted revenues and general operating expenditures. It is a subset of, and distinguished from, the General Fund, which accounts for total unrestricted revenues and total General Fund expenditures, including reserves and nonrecurring revenues and expenditures in nonoperating accounts.

Unaudited Fiscal Year 2019-20 revenues for the General Operating Fund of \$142.7 million were \$7.5 million (5.0 percent) below the Adjusted Budget and \$3.3 million (2.3 percent) lower than the prior fiscal year audited. Although revenues were tracking to be on target with budget through most of the fiscal year, the decline in revenue is primarily related to the impact of COVID-19 during the last quarter of the fiscal year. Unaudited results were \$1.4 million (1.0 percent) higher than anticipated in the May 5, 2020 Budget Status Update Report.

Total expenditures for the fiscal year of \$136.9 million were under the Adjusted Budget of \$146.7 million by \$9.8 million (6.7 percent). This was the result of savings in salaries and benefits, primarily from vacant positions, and savings in supplies, services, and capital outlay, as the COVID-19 pandemic impacted the Citywide organization for almost one-third of the fiscal year due to staff working from home. All operating department expenditures were below budget at fiscal year-end.

After taking into consideration the change in encumbrances, assets, and liabilities, the General Operating Fund ended the fiscal year with an operating balance of \$4.5 million.

Fiscal Year 2020-21 Budget Status

Staff continually monitors GOF revenues and expenditures throughout the fiscal year. Notably, estimates for the first quarter of the fiscal year are difficult to project due to the timing of when revenues are received. The first Property Tax payment from the County is not received until November 2020, first-quarter TOT remittances are not due until October 31, 2020, and Business License Taxes are not due until January 2021. For these reasons, first-quarter results are compared against an Estimated Budget in order to analyze if revenues are coming in as expected. For this update, staff used best estimates

and will continue to modify assumptions over the next several months as additional information becomes available.

More information on the City’s financial status will be available after the first half of the fiscal year; staff will provide updated numbers along with any recommended budget adjustments during the mid-year update in February 2021.

DEFINITIONS

The following definitions are used to describe amounts in this section of the report.

2020-21 Adopted Budget represents the budget adopted by the City Council on June 23, 2020.

2020-21 Estimated Budget represents the estimated budget calculated for the first quarter of the current fiscal year as a comparison with the first quarter of the prior fiscal year, taking into consideration the timing of certain revenues and expenditures when possible.

2020-21 First-Quarter Actual represents actual revenues or expenditures recorded during the first quarter of the current fiscal year.

GENERAL OPERATING FUND

A review of Fiscal Year 2020-21 first-quarter actual amounts compared to Estimated Budget for the General Operating Fund follows (dollars in thousands):

	2020-21 Adopted <u>Budget</u>	2020-21 Estimated <u>Q1 Budget</u>	2020-21 First Quarter <u>Actual</u>	Variance of Estimated Budget to Actual
Revenues	\$144,162	14,180	14,558	378
Expenditures	\$144,021	32,887	28,709	4,178

As of the first quarter of Fiscal Year 2020-21, both revenues and expenditures are on target with the Estimated Budget. Revenues are calculated with a favorable variance of \$378,000. However, it should be noted the Estimated Budget includes lower expected

revenue for the first quarter, as included in the Adopted Budget, due to the impact of Shelter-in-Place.

Expenditures are \$4.2 million below the Estimated Budget for the first quarter, reflecting a \$2.4 million favorable variance in salaries and benefits, due to position vacancies, and a \$1.8 million favorable variance in supplies and services. These estimates are for the first quarter only and do not necessarily represent a trend, as every quarter varies.

A more detailed discussion of revenues and expenditures follows.

Revenues

A review of Fiscal Year 2020-21 first-quarter actual amounts compared to Estimated Budget for General Operating Fund revenues follows (dollars in thousands):

	<u>2020-21 Adopted Budget</u>	<u>2020-21 Estimated Q1 Budget</u>	<u>2020-21 First Quarter Actual</u>	<u>Variance of Estimated Budget to Actual</u>
Revenues:				
Property Taxes	\$ 57,207	344	308	(36)
Sales Tax	19,604	2,239	3,000	761
Other Local Taxes	17,237	2,168	2,218	50
Use of Money and Property	22,571	6,535	6,628	93
Other Revenues	<u>27,543</u>	<u>2,894</u>	<u>2,404</u>	<u>(490)</u>
Total Revenues	<u>\$144,162</u>	<u>14,180</u>	<u>14,558</u>	<u>378</u>

Property tax revenue is lower than the Estimated Budget at this point in the fiscal year due to lower supplemental property taxes received. During the first quarter, the City only receives monthly supplemental property tax payments. Subsequent to the adoption of the Fiscal Year 2020-21 budget, the County provided a summary of the Fiscal Year 2020-21 tax roll (AV) and it indicates an increase compared to both the prior fiscal year tax roll and the AV anticipated in the 2020-21 Adopted Budget. The County will begin remitting secured property taxes for the current fiscal year in November. Staff will revise the Fiscal Year 2020-21 estimate after receipt of the secured payments and provide an update to the City Council with the Midyear Budget Report in February.

The first-quarter sales tax revenue is \$761,000 higher than the Estimated Budget. The favorable variance is due to the City receiving more sales tax than anticipated this quarter. Staff will continue to monitor this revenue source throughout the fiscal year and will provide the City Council an update in February.

Other Local Taxes, comprised of Utility Users Tax (UUT), Transient Occupancy Tax (TOT), and Business License Tax, is \$50,000 higher than the Estimated Budget for the first quarter. Revenues received were higher than estimated for both TOT and Business License Tax, offset by a slight decrease in UUT due to lower remittances from energy providers. It should be noted that the Adopted Budget projected TOT revenues at 10 percent of normal second quarter receipts received in July, and the total Business License Tax received for the first quarter represents less than 1 percent of the total anticipated in the Adopted Budget due to the timing of billing. For UUT, although demand for residential use has increased due to Shelter-in-Place, the decline in use from commercial buildings has outweighed the increase in residential usage.

In total, Use of Money and Property is \$93,000 higher than the Estimated Budget. This category is comprised of portfolio investment earnings and rental income generated from City property. Investment earnings are \$101,000 higher than the Estimated Budget while rents and leases revenue is lower than the Estimated Budget. It should be noted that the rents and leases Estimated Budget excludes the July through September payments from Live Nation as anticipated in the Adopted Budget. Due to Shelter-in-Place, the concert season has been canceled for the remainder of the calendar year, which will impact the revenue estimate going forward.

The first-quarter Other Revenue is \$490,000 below the Estimated Budget, the net of higher than anticipated Intergovernmental and Service Charges revenues offset by lower first-quarter revenue from all other categories as follows.

- Licenses, Permits, and Franchise Fees revenues are lower than anticipated by \$35,000, reflecting less cable and Recology franchise fees collected.
- Fines and Forfeitures revenues are lower than anticipated by \$95,000, primarily due to less parking violations and library fines collected.
- Intergovernmental revenues are higher than anticipated by \$71,000, primarily due to the collection of \$55,000 of reimbursement revenue from the County which was budgeted last fiscal year and should have been billed the prior fiscal year.

- Service Charges revenue reflects slightly higher revenue than anticipated. However, the Estimated Budget reflects lower anticipated revenue due to Shelter-in-Place restrictions. The budget for the remainder of the fiscal year reflects a more normal economy; therefore, while the first quarter results are on target, the remainder of the fiscal year may not come in as projected.
- Miscellaneous revenues are lower than anticipated by \$444,000 as there were no events at the Shoreline Amphitheatre, while there is \$460,000 budgeted for reimbursements for safety services at events.

Expenditures

A review of the Fiscal Year 2020-21 first-quarter actual amounts compared to Estimated Budget for General Operating Fund expenditures follows (dollars in thousands):

	2020-21 Adopted <u>Budget</u>	2020-21 Estimated <u>Q1 Budget</u>	2020-21 First Quarter <u>Actual</u>	Variance of Estimated Budget to Actual
Expenditures:				
Salaries and Benefits	\$ 114,297	26,623	24,236	2,387
Supplies and Services	19,575	6,162	4,371	1,791
Capital Outlay/ Equipment Repl.	2,820	102	102	-0-
Interfund Expenditures and Transfers	10,329	-0-	-0-	-0-
Debt Service	<u>1,000</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>
 Total Expenditures	 \$ <u>148,021</u>	 <u>32,887</u>	 <u>28,709</u>	 <u>4,178</u>

As certain categories of expenditures (supplies and services, capital purchases) do not occur evenly throughout the year, it is not reasonable to assume the expenditures through the first quarter represent 25.0 percent of the total that will be expended by June 30, 2021. However, as anticipated, total expenditures appear to be trending below budget.

Conclusion

In total, revenues for the first quarter are \$378,000 higher than the Estimated Budget and first-quarter expenditures are \$4.2 million below the Estimated Budget. Staff will continue to monitor the financial status of the General Operating Fund and revised estimates will be prepared for the Midyear Report presented to the City Council in February.

DEVELOPMENT SERVICES FUND

A review of the Fiscal Year 2020-21 first-quarter actual amounts compared to Estimated Budget for the Development Services Fund follows (dollars in thousands):

	2020-21 Adopted <u>Budget</u>	2020-21 Estimated <u>Q1 Budget</u>	2020-21 First Quarter <u>Actual</u>	Variance of Estimated Budget <u>to Actual</u>
Revenues	\$15,900	4,982	5,055	73
Expenditures	\$17,603	4,268	3,422	846

Actual revenue received to date is \$73,000 higher than the Estimated Budget. Although this appears to be on target, permit revenue received in the first quarter is significantly higher, \$722,000, compared to last fiscal year. Staff believes this is due to timing of Shelter-in-Place restrictions and ability to process and pay for permits, and there was a build-up of payments processed in July. However, Plan Check revenue of \$377,000 is significantly lower the first quarter of Fiscal Year 2020-21, compared to the first quarter last fiscal year of \$1.3 million. Revenue related to development fluctuates throughout the fiscal year, and this quarter may not necessarily be an indication of the trend for the remainder of the fiscal year.

Expenditures are \$846,000 below the Estimated Budget, primarily due to a significant number of vacant positions during the first quarter. The Development Services Fund is structured to weather the cyclical nature of development. Revenues on development activity are collected in advance of the services provided and corresponding expenditures, and the available balance is to provide funding for a continued desired level of development services even during a revenue decline.

Conclusion

First-quarter revenues appear to be on target and expenditures are below budget estimates. The fund is structured to weather the cyclical nature of development.

SHORELINE GOLF LINKS/MICHAELS AT SHORELINE RESTAURANT FUND

A review of the Fiscal Year 2020-21 first-quarter actual amounts compared to Estimated Budget for the Shoreline Golf Links/Michaels at Shoreline Restaurant Fund follows (dollars in thousands):

	<u>2020-21 Adopted Budget</u>	<u>2020-21 Estimated Q1 Budget</u>	<u>2020-21 First Quarter Actual</u>	<u>Variance of Estimated Budget to Actual</u>
Revenues	\$4,228	1,160	875	(285)
Expenditures	\$4,013	1,090	719	371

For the first quarter, revenue for Shoreline Golf Links (Golf Links) is \$78,000 higher than the Estimated Budget while revenue for Michaels at Shoreline Restaurant (Restaurant) is \$363,000 below the Estimated Budget. With Shelter-in-Place restrictions, the Golf Links has been able to continue business while the Restaurant has been limited to window sales and patio seating. However, patio seating was impacted by the heat wave and smoky air quality that occurred in the first quarter. While these situations have impacted revenue at the Restaurant, there are cost-saving measures in place to minimize in impact of reduced revenue. Expenditures for both operations are \$371,000 below the Estimated Budget, offsetting the lower revenue.

Conclusion

First-quarter revenues and expenditures are below budget estimates.

SHORELINE REGIONAL PARK COMMUNITY FUND

A review of the Fiscal Year 2020-21 first-quarter actual amounts compared to Estimated Budget for the Shoreline Regional Park Community (Shoreline Community) Fund follows (dollars in thousands):

	2020-21 Adopted <u>Budget</u>	2020-21 Estimated <u>Q1 Budget</u>	2020-21 First Quarter <u>Actual</u>	Variance of Estimated Budget <u>to Actual</u>
Revenues	\$48,820	935*	902	(33)
Expenditures	\$36,858	17,477	16,985	492

* Development impact fees and bond proceed interest match the 2020-21 First-Quarter Actual revenue received as those revenues are not budgeted.

Actual revenues received to date are \$33,000 lower than the Estimated Budget, primarily due to lower supplemental property tax received in the first quarter compared to last fiscal year. Property tax revenue is this fund’s major revenue source, and during the first quarter, the City only receives monthly supplemental property tax payments. The County will begin remitting secured property tax payments in November, which are expected to exceed budget based on the Certificate of Assessed Values provided by the County in August. Expenditures are \$492,000 below the Estimated Budget, as a result of savings due to vacant positions as well as in supplies and services.

Conclusion

Revenues are lower than the Estimated Budget due to lower supplemental property tax compared to the prior fiscal year. Expenditures are below the Estimated Budget at this point in the fiscal year.

WATER FUND

A review of the Fiscal Year 2020-21 first-quarter actual amounts compared to Estimated Budget for the Water Fund follows (dollars in thousands):

	2020-21 Adopted <u>Budget</u>	2020-21 Estimated <u>Q1 Budget</u>	2020-21 First Quarter <u>Actual</u>	Variance of Estimated Budget <u>to Actual</u>
Revenues	\$37,302	13,568*	13,861	293
Expenditures	\$38,352	10,526	9,922	604

*Capacity and development impact fees match the 2020-21 First-Quarter Actual revenue received as those revenues are not budgeted.

Fiscal Year 2020-21 first-quarter actual revenues are \$293,000 higher than the Estimated Budget. The water rate increase of 1.0 percent is not effective until January 1, 2021 and water usage appears to be generating water sales revenue above the anticipated level. There are several variables that impact water sales revenue, such as weather, amount of customers, and service utilization; therefore, this trend could change as the fiscal year progresses. Expenditures are \$604,000 below the Estimated Budget, primarily as a result of savings in supplies and services accounts, and a smaller amount attributable to salary and benefit savings.

Conclusion

A rate increase of 1.0 percent was adopted for Fiscal Year 2020-21 effective January 1, 2021. First-quarter actual revenues are higher than the Estimated Budget and expenditures are below the Estimated Budget.

WASTEWATER FUND

A review of the Fiscal Year 2020-21 first-quarter actual amounts compared to Estimated Budget for the Wastewater Fund follows (dollars in thousands):

	2020-21 Adopted <u>Budget</u>	2020-21 Estimated <u>Q1 Budget</u>	2020-21 First Quarter <u>Actual</u>	Variance of Estimated Budget <u>to Actual</u>
Revenues	\$25,460	7,964	7,786	(178)
Expenditures	\$24,257	7,410	6,769	641

*Capacity and development impact fees match the 2020-21 First-Quarter Actual revenue received as those revenues are not budgeted.

With the adoption of the Fiscal Year 2020-21 budget, Council approved a 4.0 percent rate increase, 2.0 percent effective July 1, 2020 and 2.0 percent effective January 1, 2021. In total, revenues are \$178,000 below the Estimated Budget. Wastewater service charges are a flat monthly fee for residential customer and are based on water usage for commercial customers. Service charge revenue for commercial customers is down, specifically for restaurants. Expenditures are \$641,000 lower than the Estimated Budget at this point in the fiscal year, primarily as a result of savings in supplies and services accounts and a smaller amount attributable to salary and benefit savings.

Conclusion

A rate increase of 4.0 percent was adopted for Fiscal Year 2020-21, 2.0 percent effective July 1, 2020 and 2.0 percent effective January 1, 2021. First-quarter revenues and expenditures are below the Estimated Budget.

SOLID WASTE MANAGEMENT FUND

A review of the Fiscal Year 2020-21 first-quarter actual amounts compared to Estimated Budget for the Solid Waste Management Fund follows (dollars in thousands):

	2020-21 Adopted Budget	2020-21 Estimated Q1 Budget	2020-21 First Quarter Actual	Variance of Estimated Budget to Actual
Revenues	\$15,021	4,088	3,827	(261)
Expenditures	\$15,839	3,753	3,327	426

The amounts detailed above are exclusive of service charge revenues collected and remitted to Recology.

The trash and recycling rate increase of 2.0 percent for Fiscal Year 2020-21 is not effective until January 1, 2021. Overall revenues for the first quarter indicate an unfavorable variance due to lower service charge revenue received compared to prior fiscal year. This is primarily the result of lower debris box revenue and commercial service due to Shelter-in-Place restrictions. Actual first-quarter expenditures are \$426,000 less than the Estimated Budget, as a result of savings in salaries, benefits, supplies, and services.

Conclusion

A rate increase of 2.0 percent was adopted for Fiscal Year 2020-21 effective January 1, 2021. First-quarter actual revenues and expenditures are below the Estimated Budget.

COVID-19 Program Updates

Update on COVID-19 Rent Relief and Small Business Relief Programs

The City initiated its COVID-19 Rent Relief Program in April 2020 and subsequently provided additional funding due to the high demand, for a total amount of approximately \$2.6 million. The Community Services Agency (CSA) implements the City's program, supplemented by other funding secured through fundraising efforts.

Below is a summary of the latest program update as of October 28, 2020:

- A total of 963 households have been served (i.e., have received or are awaiting first month's rent) and, out of these households, 631 have received or are awaiting two months of rent support. A total of 1,594 checks were disbursed or waiting to be disbursed, at approximately \$2,000 per check.
- \$1.898 million of City funds have been expended, leaving approximately \$700,000 of City funds remaining. There are 403 applications currently for rent support, which would exhaust the remaining funding if all of them are approved, assuming an average check of \$2,000.
- Approximately 80% of the clients served are at or below 50% average median income (AMI). The program has been modified to serve that population and for full rent (not 25% rent) for two months, due to the requirements of AB 3088.

CSA notes that rent relief requests remain steady, and there have been many households that are behind multiple months in their rent payments and are unsure how they will get everything paid back.

The Small Business Relief Program distributed \$7,000 zero-percent interest microloans to 71 small businesses. Staff is currently scheduled to relaunch the loan program with the remaining funds (\$277,000). However, the maximum loan amount will increase to \$15,000 to bring more relief to each business since their needs have increased due to the length of the pandemic. Main Street Launch will continue to be the program administrator. The plan is to announce the reopening of the loan program beginning with a one-week inquiry period followed by a two-week period for submittal of applications. The announcement will be made on November 9 using the first electronic Economic Development newsletter. In addition, the consultant who worked on the Small Business Action Plan is exploring long term options, including other funding sources, to support the program.

With respect to additional available resources that could be utilized for providing further financial relief to those in this community, the City was allocated approximately \$1.0 million from the State's share of federal CARES Act funding to reimburse COVID-19 related expenditures incurred by the City since the start of the COVID-19 emergency. The reimbursements received in Fiscal Year 2020-21 may be used to fund other community needs related to the ongoing pandemic such as additional rent relief, small business relief program and/or any other priorities that Council determines is needed. With the COVID-19 emergency situation still ongoing with no particular end in sight,

Council may wish to consider whether it desires to use these funds for one or more of these purposes.

Other COVID-19 Emergency Expenses

The City Council authorized an appropriation of \$600,000 in Fiscal Year 2019-20 for emergency expenses related to the COVID-19 pandemic. Actual expenditures in Fiscal Year 2019-20 were \$358,000. In addition, \$187,000 in encumbrances were outstanding at the end of the fiscal year and carried forward, along with the remaining budget balance of \$55,000 (as authorized by City Council) to the current fiscal year. As of September 30, 2020, there are expenditures of \$226,000 and outstanding encumbrances of \$200,000 for these emergency-related expenditures, \$185,000 more than the amount carried over from the prior fiscal year. The most the City will be eligible to receive in reimbursement from FEMA is 75.0 percent of these expenditures, and it is not expected the City will receive reimbursement for some time. It is also likely that some of the expenditures will not be approved by FEMA for reimbursement. Staff is currently estimating additional funding of approximately \$500,000 may be needed for the remainder of the fiscal year. Staff will return to the City Council at the Midyear Budget Update in February to refine the amount needed and request a budget adjustment at that time.

Other Appropriations

Authorization for Appropriation of Business License Tax Revenue Received

The City Council has designated that 90.0 percent of the revenue generated from the restructured Business License Tax be designated to Transportation (80.0 percent) and Housing (10.0 percent). To facilitate this, the budget includes transfers from the General Operating Fund to the Transportation Reserve and the General Housing Fund. However, should the revenue generated from the restructured tax be more than budgeted, the appropriation for the transfer would need to be increased. This authorization allows the Finance and Administrative Services Director to increase appropriations for these transfers up to the amount of revenue received. This authorization will be included in the budget resolution for Fiscal Year 2021-22.

Authorization for Appropriation of VTA 2016 Measure B Sales Tax Funds Received

The City is authorized to receive VTA 2016 Measure B Sales Tax funds; however, these funds are received on a reimbursement basis. The City Council has approved capital projects which are funded by VTA 2016 Measure B Sales Tax funds. The transfer from

this funding source is budgeted in the fiscal year the project is approved. Because these funds are received on a reimbursement basis, there are no funds that can be transferred to the capital project up front. This authorization allows the Finance and Administrative Services Director to increase appropriations for the reimbursed funds received in order to transfer funds to the capital project up to the amount approved for the capital project. This will occur in fiscal years subsequent to approving the capital project until all reimbursement funds are received. This authorization will be included in the budget resolution for Fiscal Year 2021-22.

Use of Equity-Based Budget Lens in Development of the Fiscal Year 2021-22 Budget

Information and concepts in this section on equity-based budgeting were presented to the Council Ad-Hoc Sub-Committee on Race, Equity, and Inclusion on October 5, 2020. After discussion, the Committee was in favor of moving ahead with this concept and bringing it to the full Council to approve some initial steps to incorporate an equity lens into the Fiscal Year 2021-22 budget development process.

The events that transpired during the past year, including a global pandemic, a movement for racial justice, and the onset of another recession, have shone a light on communities of color and residents with less economic means and how these groups have been disproportionately impacted by the multiple crises. The City is determined to address these inequities as part of its commitment to improving the lives of all Mountain View residents through a focus on improving racial equity and inclusion.

The City is fortunate to have a diverse population of residents comprised of a range of multicultural and ethnic backgrounds, income levels, ages, and perspectives. While the City desires all of its residents to fully participate in, and benefit from, the economic vitality and resources in the region, we recognize that this does not always occur and that more can be done to promote equitable outcomes for all community residents. This is achievable by taking a closer look at how decisions, specifically budget decisions, impact communities of color, lower-income residents, and those that may be disadvantaged or disabled and lacking the same access to the benefits and resources that are available to others in the community.

In order to realize more equitable outcomes and opportunities for communities of color and lower-income residents, some cities across the country are taking an equity-based approach to budgeting. This approach can take a variety of forms, depending on the size, circumstances, and needs of a city. In general, equity-based budgeting seeks to identify

how budgetary decisions may impact communities of color and low-income residents, either positively or negatively. This concept is designed to help address racial disparities and enable all residents to fully participate in the economic vitality of their city, contribute to that city's future readiness, and connect to assets and resources of the surrounding region.

Equity-based budgeting is usually implemented through the development of a "Budget Equity Tool (BET)" that is applied during the budget process to take racial and economic equity into consideration in budget decisions.

Staff has analyzed how a BET could be introduced in Mountain View, taking into consideration the City's size, staffing, workload, and programmatic constraints, and has developed an initial approach for the upcoming budget process in order to meet the commitment to improve racial equity and inclusion for all the residents of Mountain View.

Objectives and Principles of Equity-Based Budgeting

The City of San Antonio has been a leader in looking at equity considerations as part of its budget process and has staffing and infrastructure dedicated to this effort. The San Antonio Office of Equity has identified four primary objectives for addressing racial equity and inclusion:

1. Identify if budget requests advance equitable outcomes for residents;
2. Identify burdens and benefits of decisions on communities of color and low-income communities;
3. Ensure programs, projects, plans, and investments reduce disparities; and
4. Increase community engagement in the process.

There are also a number of principles involved in using equity-based budgeting and a BET, including the following:

1. Applying an Equity Lens. In order to help meet the objectives, the process involves applying an "equity lens." This equity lens is essentially a series of questions that are asked about departmental budget requests at the beginning of the budget development process. This lens enables the City to assess potential impacts on

communities of color and lower-income communities as well as other types of disadvantaged populations within the City. It seeks to answer the question of how budgetary decisions burden or benefit communities of color and low-income communities. Ultimately, budgetary recommendations and decision-making will take into consideration the answers to the BET questions and other essential budget parameters.

2. Be Equity Data-Driven. The key to making good budget decisions is to look at underlying data about the affected populations, and how this data can be measured to determine the impact on different groups and progress toward more equitable outcomes as a result of a given budget decision. Using objective data also helps further support the basis for the decisions that are made concerning a program or service level change. Notably, the availability of relevant data can be a challenge in doing the analysis needed to apply and determine the effectiveness of a BET.
3. Strengthen or Enhance Community Engagement Efforts and Equitable Access. An important component in equity-based budgeting is to be proactive in communicating with residents about the budget and receiving feedback on how the City can achieve more equitable outcomes with respect to providing programs and services, as well as promoting participation. Education about the budget process, parameters, and tradeoffs is key in successful community engagement.
4. Be Accountable. It is also important that City operations and programs contribute to the goal of reducing inequities, which, for example, could include commitments to fairness in hiring and promotions and providing equitable services and programs in the community. Such commitments can be established as goals, with progress measured over time and reported in the budget.

In general, the scope of equity-based budgeting is quite extensive and requires significant resources and available data. There must be sufficient staff capacity in both the finance department and the operating departments, with the training and information needed to analyze benefits and burdens on different groups of people and assess the impact on equity across groups. Most of the agencies using equity-based budgeting are the largest cities in the country, which have significant resources, staffing, and infrastructure necessary to support these programs on a long-term basis. While resources are much more limited for a city the size of Mountain View, staff can develop initial actions to apply an equity lens in how the City is making decisions to serve our residents.

Recommended Approach

Staff proposes that in the initial year of commitment to equity-based budgeting, the following questions be used as an equity lens in helping to evaluate whether budget additions, potential reductions, and/or reallocations should be recommended:

1. Does this benefit communities of color and low-income residents?
2. Does this burden communities of color and low-income residents?

Although many more layers of questions could be added to an equity lens analysis of budget proposals, starting with these two basic questions will allow the City to focus on understanding how the larger process will work for our community, and, thus, build upon this foundation in future budgets while starting to gather relevant disaggregated data that will enable us to further assess how our budget decisions affect our residents.

This process can be modified or expanded over time as financial and administrative resources are devoted to increasing the capacity for additional initiatives and/or programmatic changes, as well as the collection of data, that would enhance staff's ability to make recommendations that are supported by objective data.

As part of the process, staff is also planning to launch a "Budget 101" workshop for the community and provide enhanced community engagement as part of the budget process.

Staff recommends that the City incorporate the concept of an equity lens into the Fiscal Year 2021-22 budget development process.

FISCAL IMPACT

The various fiscal impacts are identified and discussed within this report. Should Council decide to appropriate funding for additional relief for one or more of the programs discussed, up to \$1 million of CARES Act allocated to the City would be used for this purpose. The authorization for the Finance and Administrative Services Director to increase certain appropriations is administrative only and has no fiscal impact. An equity lens as part of the Fiscal Year 2021-22 budget process will not have a direct fiscal impact.

CONCLUSION

The unaudited Fiscal Year 2019-20 General Operating Fund operating balance is \$4.5 million, after adjustments for changes in encumbrances, assets, and liabilities. A comprehensive update on the City's fiscal year-end financial status will be provided to the City Council in December 2020 in the Comprehensive Annual Financial Report.

The Fiscal Year 2020-21 first-quarter results compared to the Estimated Budget indicate that the GOF is on target for the first quarter for both revenues and expenditures. It should be noted that some revenues for the first quarter of Fiscal Year 2020-21 were projected to be lower due to impacts of COVID-19, but the remaining fiscal year projections reflect a more normal economy. A clearer picture of the General Operating Fund financial position in the current and upcoming fiscal years will be presented to the City Council with the Midyear Budget Report in February 2021.

It is early in the 2020-21 fiscal year, but, at this point, the Development Services and Water Funds indicate revenues higher than the Estimated Budget, while Shoreline Golf Links/Michaels at Shoreline Restaurant, Shoreline Regional Park Community, Wastewater, and Solid Waste Management Funds indicate revenues below the Estimated Budget. All fund expenditures are below the Estimated Budget. Staff will continue to monitor all major funds and return to the City Council with an update early in the calendar year.

Incorporating the use of an equity lens in the budget development process will allow the City to begin taking steps toward improving racial equity and inclusion for all residents of Mountain View.

ALTERNATIVES

1. Do not authorize the Finance and Administrative Services Director to increase appropriations for certain items as described in this report.
2. Authorize a different amount of CARES Act funding for emergency relief programs or for other priorities, or defer the decision to midyear.
3. Do not utilize an equity lens in the development of the Fiscal Year 2021-22 budget.
4. Provide other direction to staff.

PUBLIC NOTICING – Agenda posting.

Prepared by:

Ann Trinh
Senior Financial Analyst

Rafaela Duran
Principal Financial Analyst

Suzanne Niederhofer
Assistant Finance and
Administrative Services Director

Approved by:

Jesse Takahashi
Finance and
Administrative Services Director

Kimbra McCarthy
City Manager

AT-RD-SN/2/CAM
541-11-10-20CR
200342