

File No. 200917

Committee Item No. 1

Board Item No. \_\_\_\_\_

# COMMITTEE/BOARD OF SUPERVISORS

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Committee: Budget & Appropriations Committee      Date August 26, 2020

Board of Supervisors Meeting      Date \_\_\_\_\_

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### OTHER (Use back side if additional space is needed)

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Completed by: Linda Wong      Date August 21, 2020

Completed by: Linda Wong      Date \_\_\_\_\_

1 [Suspension of Financial Policy - Authorizing Spending of Selected Nonrecurring Revenues  
2 on Recurring Expenditures - FY2021-2022]

3 **Resolution suspending the City’s financial policy in Administrative Code, Section**  
4 **10.61, for FY2021-2022 to authorize the City to spend selected nonrecurring revenues**  
5 **described in that policy on recurring expenditures.**

6  
7 WHEREAS, Section 9.120 of the Charter requires the Board and Mayor to enact  
8 ordinances adopting long-range financial policies that are consistent with generally recognized  
9 principles of public finance; and

10 WHEREAS, The Charter requires the City’s financial policies to address, among other  
11 matters, the City’s use of volatile revenues; and

12 WHEREAS, Once adopted by ordinance, the financial policies are binding upon the  
13 Mayor and Board of Supervisors, and the City may not enact a budget that the Controller  
14 determines is inconsistent with one or more of these policies; and

15 WHEREAS, Under the authority in Section 9.120, the City enacted Administrative  
16 Code, Section 10.61, which provides that the City may only spend Selected Nonrecurring  
17 Revenues on Nonrecurring Expenditures; and

18 WHEREAS, Section 10.61 defines Selected Nonrecurring Revenues as (1) General  
19 Fund prior year-end unassigned fund balance, before deposits to the Rainy Day Reserve or  
20 Budget Stabilization Reserve, in excess of the average of the preceding five years; (2) the  
21 General Fund share of revenues from prepayments provided under long-term leases,  
22 concessions, or contracts after accounting for any Charter-mandated revenue transfers, set-  
23 asides, or deposits to reserves; (3) otherwise unrestricted revenues from legal judgments and  
24 settlements; and (4) otherwise unrestricted revenues from the sale of land or other fixed  
25 assets; and

1           WHEREAS, Section 10.61 defines Nonrecurring Expenditures as expenditures or other  
2 uses that do not create liability for or expectation of substantial ongoing costs; and

3           WHEREAS, In the Controller’s Opinion on Revenue Estimates, the Controller must  
4 identify all Selected Nonrecurring Revenues included in the Mayor's budget submission and  
5 certify whether the proposed uses of those revenues constitute Nonrecurring Expenditures;  
6 and

7           WHEREAS, The Mayor submitted a proposed two-year budget on July 31, 2020, which  
8 anticipated that the General Fund will receive \$331.6 million in Selected Nonrecurring  
9 Revenues in Fiscal Year 2021-22, and which proposes to authorize expenditures of \$88.6  
10 million in Nonrecurring Expenditures; and

11           WHEREAS, The Controller’s Opinion on Revenue Estimates has concluded that the  
12 Mayor’s budget submission would authorize spending of Selected Nonrecurring Revenues on  
13 expenditures that are not Nonrecurring Expenditures; and

14           WHEREAS, In light of the extraordinary financial challenges created by the COVID-19  
15 pandemic and its economic impacts on the City, the Board of Supervisors has concluded that  
16 it is appropriate to spend some Selected Nonrecurring Revenues in Fiscal Year 2021-22 on  
17 recurring expenditures; now, therefore, be it

18           RESOLVED, That the Board of Supervisors hereby suspends the financial policy in  
19 Administrative Code, Section 10.61 for Fiscal Year 2021-22, and authorizes the City to spend  
20 some Selected Nonrecurring Revenues in Fiscal Year 2021-22 on recurring expenditures, as  
21 appropriated in the annual appropriations ordinance and any subsequent supplemental  
22 appropriations ordinances.

**CITY AND COUNTY OF SAN FRANCISCO**

**BOARD OF SUPERVISORS**

**BUDGET AND LEGISLATIVE ANALYST**

1390 Market Street, Suite 1150, San Francisco, CA 94102 (415) 552-9292  
FAX (415) 252-0461

August 21, 2020

**TO:** Budget and Appropriations Committee

**FROM:** Budget and Legislative Analyst



**SUBJECT:** August 26, 2020 Budget and Appropriations Committee Meeting

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<p><b>Item 1</b> <b>File 20-0917</b></p>	<p><b>Department:</b> <b>Controller’s Office</b></p>
<p><b>EXECUTIVE SUMMARY</b></p>	
<p style="text-align: center;"><b>Legislative Objectives</b></p> <ul style="list-style-type: none"> <li>• The proposed resolution suspends Section 10.61 for FY 2021-22, which would authorize the City to spend certain non-recurring revenues on recurring expenditures.</li> </ul> <p style="text-align: center;"><b>Key Points</b></p> <ul style="list-style-type: none"> <li>• City Administrative Code Section 10.61 establishes the City’s policies for the use of non-recurring revenues for non-recurring expenditures. Non-recurring revenues include use of prior year fund balance; proceeds from prepayments for ground leases or other agreements; and proceeds from assets. Non-recurring expenditures may include discretionary funding of reserves; acquisition of capital equipment; capital projects included in the City's capital plans; development of affordable housing; discretionary prepayment of pension, debt, or other long term obligations; or substitution for budgeted reserves when new revenues disallow previously budgeted withdrawals from the Rainy Day Reserve or Budget Stabilization Reserve.</li> <li>• Section 10.61(d) provides for the Board of Supervisors to temporarily suspend these policies for the upcoming fiscal year by a two-thirds’ vote by resolution.</li> </ul> <p style="text-align: center;"><b>Fiscal Impact</b></p> <ul style="list-style-type: none"> <li>• According to the Controller’s FY 2020-21 and FY 2021-22 Revenue Letter, the Mayor’s proposed FY 2021-22 budget includes \$331.6 million in one-time funds but only \$88.6 million in one-time uses, which does not comply with Administrative Code Section 10.61.</li> <li>• Use of non-recurring revenues in FY 2021-22 to pay for recurring expenditures would require the City to identify sources of funds in FY 2022-23 to pay for recurring expenditures.</li> </ul> <p style="text-align: center;"><b>Recommendation</b></p> <ul style="list-style-type: none"> <li>• Approval of the proposed resolution is a policy matter for the Board of Supervisors.</li> </ul>	

## MANDATE STATEMENT

City Administrative Code Section 10.61 establishes the City's policies for the use of non-recurring revenues for non-recurring expenditures. Section 10.61(d) provides for the Board of Supervisors to temporarily suspend these policies for the upcoming fiscal year by a two-thirds' vote by resolution. The Board of Supervisors may suspend this Administrative Code provision following declaration of an emergency by the Mayor or Governor.

## BACKGROUND

City Administrative Code Section 10.61 defines the City's policies for use of non-recurring revenues and expenditures. Non-recurring revenues include:

- General Fund prior year-end unassigned fund balance, before deposits to the Rainy Day Reserve or Budget Stabilization Reserve, in excess of the average of the preceding five years;
- General Fund share of revenues from prepayments provided under long-term leases, concessions, or contracts after accounting for any Charter-mandated revenue transfers, set-asides, or deposits to reserves;
- Otherwise unrestricted revenues from legal judgments and settlements; and,
- Otherwise unrestricted revenues from the sale of land or other fixed assets.

Non-recurring expenditures may include (a) discretionary funding of reserves; (b) acquisition of capital equipment; (c) capital projects included in the City's capital plans; (d) development of affordable housing; (e) discretionary prepayment of pension, debt, or other long term obligations; or (f) substitution for budgeted reserves when new revenues disallow previously budgeted withdrawals from the Rainy Day Reserve or Budget Stabilization Reserve.

Section 10.61 allows for the City to appropriate selected non-recurring revenues to fund recurring expenditures, such as operating expenses for a program or routine facility maintenance, through an ordinance approved by the Mayor and adopted by two-thirds' vote of the Board of Supervisors.

## DETAILS OF PROPOSED LEGISLATION

The proposed resolution suspends Section 10.61 for FY 2021-22, which would authorize the City to spend certain non-recurring revenues on recurring expenditures.

## FISCAL IMPACT

According to the Controller's FY 2020-21 and FY 2021-22 Revenue Letter, the Mayor's proposed FY 2021-22 budget includes \$331.6 million in one-time funds but only \$88.6 million in one-time uses, which does not comply with Administrative Code Section 10.61, as shown in Exhibit 1 below.

**Exhibit 1: One Time Sources and Uses in Proposed FY 2021-22 Budget (\$ millions)**

	<b>FY 2021-22 Proposed Budget</b>
<b>One Time Sources</b>	
Rainy Day Reserve	\$57.3
Budget Stabilization Reserve	<u>125.3</u>
Existing Reserves Subtotal	182.6
<i>November 2020 Election</i>	
Business Tax Stabilization Reserve <sup>a</sup>	149.0
<b>Total One Time Sources</b>	<b>\$331.6</b>
<b>One Time Uses</b>	
Capital Planning	\$46.3
Committee on Information Technology	17.4
Other Capital	11.0
Equipment	5.5
Non-profit and Small Business	1.7
Other	6.7
<b>Total One Time Uses</b>	<b>\$88.6</b>

Source: Controller's Revenue Letter

<sup>a</sup> According to the Controller's Revenue Letter, the Mayor's proposed FY 2020-21 and FY 2021-22 budget includes \$272.8 million in one-time transfers to the General Fund to repay advances for expenditures that would otherwise have been paid from June 2018 and November 2018 Proposition C tax proceeds. Of the \$272.8 million, \$149.0 million is budgeted in FY 2021-22. Availability of these funds is dependent on voter approval of the proposed business tax proposition on the November 2020 ballot. The Budget and Legislative Analyst recommended placing these funds on reserve in the respective departments' FY 2021-22 budgets.

Use of non-recurring revenues in FY 2021-22 to pay for recurring expenditures would require the City to identify sources of funds in FY 2022-23 to pay for recurring expenditures.

### RECOMMENDATION

Approval of the proposed resolution is a policy matter for the Board of Supervisors.

**From:** [Kittler, Sophia \(MYR\)](#)  
**To:** [BOS Legislation, \(BOS\)](#)  
**Cc:** [GIVNER, JON \(CAT\)](#); [PEARSON, ANNE \(CAT\)](#); [Groffenberger, Ashley \(MYR\)](#); [Peacock, Rebecca \(MYR\)](#); [Rosenfield, Ben \(CON\)](#)  
**Subject:** MYR - Resolution - Suspending Financial Policy  
**Date:** Tuesday, August 11, 2020 2:06:32 PM  
**Attachments:** [01. Resolution Suspension of Financial Policy.docx](#)

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Hello,

Please find attached for introduction to the Board of Supervisors a **Resolution suspending the City's financial policy in Administrative Code, Section 10.61, for FY2021-2022 to authorize the City to spend selected nonrecurring revenues described in that policy on recurring expenditures.**

Please let me know if you have any questions or concerns.

Sophia

Sophia Kittler  
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