

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

TABLE OF CONTENTS

Item	File	Page
1	20-0917 Suspension of Financial Policy - Authorizing Spending of Selected Nonrecurring Revenues on Recurring Expenditures - FY2021-2022	1

Item 1 File 20-0917	Department: Controller's Office
EXECUTIVE SUMMARY	
<p style="text-align: center;">Legislative Objectives</p> <ul style="list-style-type: none"> • 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. <p style="text-align: center;">Key Points</p> <ul style="list-style-type: none"> • 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. • 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. <p style="text-align: center;">Fiscal Impact</p> <ul style="list-style-type: none"> • 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. • 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. <p style="text-align: center;">Recommendation</p> <ul style="list-style-type: none"> • Approval of the proposed resolution is a policy matter for the Board of Supervisors. 	

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)

	FY 2021-22 Proposed Budget
One Time Sources	
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 ^a	149.0
Total One Time Sources	<u>\$331.6</u>
One Time Uses	
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
Total One Time Uses	<u>\$88.6</u>

Source: Controller's Revenue Letter

^a 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.