



MEMORANDUM

TO: The Honorable Mayor and
City Council

FROM: The Budget Advisory
Commission

SUBJECT: BAC Review & Recommendations
Re: Midcycle Budget 2020-21

DATE: May 28, 2020

BAC Review and Recommendations: Response to Midcycle Budget 2020-21

1. **Agreement with Overall Mid-Cycle Budget Approach:** The budget proposal as it relates to revenues, expenditures and proposed fiscal actions seems reasonable in light of Covid-19 subject to the following comments and recommendations.
2. **Preserving Long-Term Fiscal Stability:** As strong advocates for funding of Vital Services Stabilization Fund (Rainy Day Fund), Other Post-Employment Benefits, negative fund balance reduction and other past fiscal stability actions we regret the recommended actions but believe they are necessary.
3. **Preservation of Emergency Reserve:** It is imperative that the Emergency Reserve be protected in light of future uncertainties as described in the “pessimistic forecast”. The BAC understands that if fiscal conditions were to worsen, we are open to revisiting use of the Emergency Reserve.
4. **Use of One-Time Revenues:** We note the use of one-time revenues for ongoing expenses, and note our concern with the implications of this for future budgets.
5. **Possible Federal and/or State Funds:** We support the decision to revisit the appropriation of unknown additional state and federal funds when the amount, if any, of such action is known.
6. **Ongoing Monitoring of Fiscal Conditions:** We recommend that staff establish systems to closely track any increase/decrease in revenues and expenditures. The present system of quarterly reports may not give sufficient warning of the need to further adjust the budget.
7. **Preparing for the More Pessimistic Scenario:** In the event that revenues decrease further due to economic conditions, the council should consider adopting a further list of cuts similar to the “Priority Restoration of City Services” so that rapid action can be taken as needed and lessen the effects on the 2021-23 budget. The Council should consider automatic triggers for such action or at a minimum require automatic consideration by the Council when defined thresholds are met (i.e. a specified decrease in revenues).

8. **Risks Around Reduced Property-Related Revenue:** We are concerned that economic conditions will be worse than assumed in this budget. We are particularly concerned that property-based revenues such as Real Estate Transfer Tax may be significantly lower than in the Proposed Budget. Supporting this viewpoint are the following:
- a) Numerous economic forecasts that predict an "L" shaped as opposed to "U" shaped recovery.
 - b) The increasing discussion of "work from home" by large employers including Facebook which may depress the commercial real estate market.
 - c) The recent decrease in home sales, although to date prices have been stable.
 - d) The prediction of decreasing property tax collections as contained in the San Francisco City and County proposed budget. We look forward to further forecasts from the County of Alameda.
9. **Priority Restoration of City Services** – The BAC has concerns that the actions to support long-term fiscal stability (e.g. funding Other Post-Employment Benefits and Vital Services Stabilization Fund) are a lower restoration priority in the mid-cycle budget. The BAC also recommends that city council recognizes the need to restore prior levels of Operations & Maintenance funding and reserves as fiscal conditions improve.
10. **Expense Transfers to Special Funds** – This budget transfers \$12.86 million to special-purpose funds. The BAC recommends that, while necessary under current conditions, such funding be reverted to prior general purpose funding, as soon as possible.
11. **Exploration of Additional Revenue Sources:** The BAC recommends that the council consider new revenue sources, authorize the necessary studies, and take necessary actions, including calling necessary elections, to raise feasible revenues.

Respectfully submitted,

JAY ASHFORD
Chair, Budget Advisory Commission