



First Quarter Financial Report

Fiscal Year 2020-21

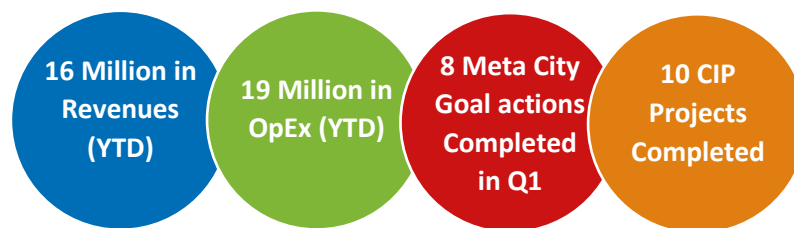
Introduction

This financial report provides an overview of the City's financial position through the first quarter of fiscal year 2020-21 (July 1 - September 30, 2020) for the General Fund and major enterprise operating funds. It also provides an update on the status of the City's Capital Improvement Program Projects (CIP) and City Meta Goal. Notable milestones or trends within the first quarter are addressed and detailed throughout the document. The report is broken down into the following sections (linked):

1	General Fund Update	3	Meta Goal Update	5	Debt Schedule Update
2	Enterprise Funds Update	4	Capital Improvement Plan Update	6	Outlook and Conclusion

1 General Fund Update

As of September 30, 2020, operating expenditures trend on target with past years' first quarters. Revenues have been negatively impacted by COVID19, but they are tracking close to what was adopted in the 2020-21 Supplemental Budget. Below are the highlights from the third quarter:



Adjusted Budgets and Revenue Estimates: The City's overall revenue and expenditure picture was updated in May 2020 and the 2020-21 Supplemental Budget was adopted on June 2, 2020. Revenue forecasts were based on assumptions at the time, many of which have held true and some of which have changed. The overall economic bounce back from the initial COVID19 shutdown has been stronger than anticipated with the partial reopening of the economy, but many uncertainties remain. The City planned to return to Council in October 2020 with a clearer economic forecast and determine if additional budget adjustments needed to be made. At this time, no general fund budget changes are being proposed. While some tax revenues are tracking more favorable than originally anticipated, many fee programs expect a less favorable forecast due to the extended program closure. Staff plans to return to Council in February with an update long term forecast once it has better analytics for the first 6 months of 2020-21.

2019-20 Year End Carryover: Because FY 2019-20 ended with revenues exceeding expenditures, The City Manager was authorization to allow specific carryover of budget for the continuation of active projects or mission critical needs. The expenditure tables in this report include adjustments for the carryover and encumbrances from the FY 2019-20. See the City’s full 2019-20 Year End Report [here](#).

COVID19: The COVID19 pandemic began in late February 2020. Along with the reduced revenues, the pandemic brought unfunded costs associated with supporting economic recovery and protecting the health of the community. When Audited Financials were presented to Council on March 17, 2020, there was approximately \$6 million in one-time undesignated fund balance at FY 2018-19 Year end. In preparation for unfunded costs, Council adopted a resolution to keep these funds in undesignated fund balance and give City Manager the authority to allocate towards COVID expenses and economic recovery efforts as needed. The chart below shows the remaining amount in fund balance as of September 30, 2020.

Table 1: 2018-19 Unassigned Fund Balance Update		
Original Balance	Used to Date	Remaining Balance (9/30/20)
\$5,991,692	\$218,900	\$5,772,792

The current 2020-21 COVID costs for the General Fund is \$318,247. The City will submit to FEMA for reimbursement of these costs, but it is still unknown whether any will be received. Additionally, the required CARES Act report for Cycle 1 was submitted in September.

As part of the adopted Meta City Goal, the City has been focusing efforts and funding to support the local economy and promote a safe environment during the health crisis. An overview of these actions can be found [here](#).

General Fund Revenue

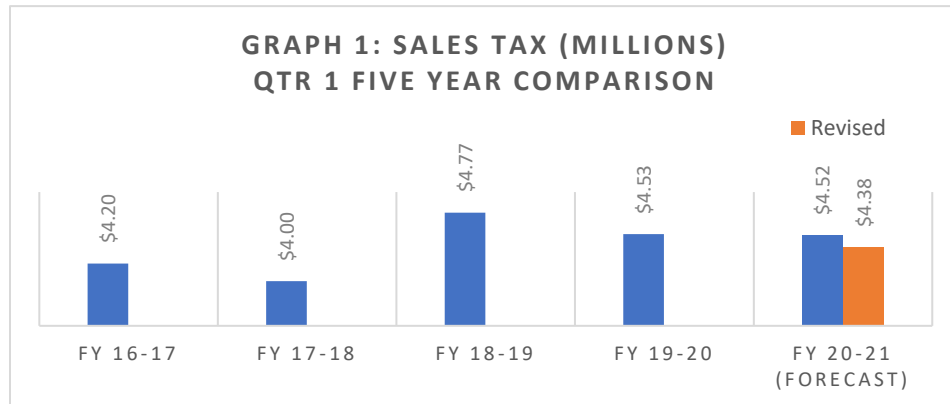
Table 2: General Fund Revenues		2019-20		2020-21		Variance from prior year		
		Footnote	Q1 Actual	% Received	Total Budget		Q1 Actual	% Received
Tax and Franchise Revenue								
1	Sales and Use Tax (July & Aug only)	1	\$ 5,031,744	20%	\$ 22,853,783	\$ 5,147,376	23%	2%
2	Property Tax		\$ 132,909	1%	\$ 18,418,903	\$ 734,794	4%	453%
3	Transient Occupancy Tax		\$ 2,334,589	29%	\$ 6,267,000	\$ 1,800,251	29%	-23%
4	Utility User Tax		\$ 1,187,531	20%	\$ 5,565,000	\$ 1,157,156	21%	-3%
5	Business Tax	2	\$ 2,862,835	97%	\$ 2,853,740	\$ 2,890,955	101%	1%
6	Franchise Fees		\$ 77,798	5%	\$ 1,544,000	\$ 78,702	5%	1%
7	Gas Tax (Special Revenue Fund)		\$ 225,826	22%	\$ 1,082,390	\$ 286,350	26%	27%
8	SB1 Gas Tax (Special Revenue Fund)		\$ 156,038	19%	\$ 795,548	\$ 147,044	18%	-6%
9	Cannabis Tax		\$ -	0%	\$ 400,000	\$ 114,859	29%	
Total Tax & Franchise Revenue			\$ 12,009,270	19%	\$ 59,780,364	\$ 12,357,488	21%	3%
10	Fees and Other Revenue**	3	\$ 6,023,828	24%	\$ 16,790,780	\$ 4,137,468	31%	-31%
Grand Total			\$ 18,033,098	20%	\$ 76,571,144	\$ 16,494,956	22%	-9%

1 - Includes \$146,000 in FY 20-21 actuals that are from FY 19-20 due to the sales tax deferral programs

2 - Business license and tax certificate renewals are due before September 30th; therefore anticipated revenue for the year has been

3 - FY2019-20 includes a one-time funding of \$2 million from SB1090 Diablo Closure

Sales Tax: As of September 30, 2020, about 17% of the City’s forecasted sales tax revenue for this fiscal year had been collected due to the timing of disbursements from the California Department of Tax and Fee Administration (CDTFA. This accounts for revenue earned July 2020 through August 2020. As with most California cities, actual sales tax revenues for the last 4 months have been higher than initial projections. This was largely due to an increase in the state and county pool allocation which helped offset the decrease in tax revenue from general consumer goods and other negatively affected industries. Online sales are the largest contributor to the countywide pool allocation. The chart below shows a year over year comparison of sales tax revenue for the first quarter. The revised forecast, while better than initially projected, is still below 2018-19 levels.



Property Tax: The majority of property tax is not collected until the 3rd and 4th quarter of the fiscal year; therefore, the year to date actual is on track. The latest property tax forecasts provided by the County confirm that the economic downturn has had little effect on the housing market and economists are predicting that this will remain stable through the recession.

Transient Occupancy Tax (TOT): Tourism levels and TOT collection remain top concerns for the City. Hotel occupancy rates remain below normal levels and the CSU chancellor announcement of extended virtual learning will cancel many of the large university events that bring visitors to the City. Tourism did see a bounce back over the summer but there are too many unknowns to say that the revenue forecast will improve. First quarter TOT revenues were about 23% lower than last year.

Cannabis Tax: The City’s first storefront retail cannabis shop opened mid-August; therefore, the City realized a bump in monthly cannabis tax revenues. It is too soon to say how demand will level out over the next nine months, but the current revenue projection seems accurate at this point.

Fees and Other Revenue: Fees and other revenues typically track slightly above 25% in the first quarter because many annual permit and license fees are collected during that time. The two notable variances are that development services revenue is slightly higher than projected and parks and recreation revenue is slightly lower than projected. Both variances make sense because of several large active development projects going through planning and because of the extended closure of recreational programs. It is too soon to say if either of these trends will continue for the remainder of the fiscal year, but an updated forecast will be provided at mid-year.

General Fund Expenditures

Overall expenditure trends are on track with budget. The graphs below include first quarter consumption for FY 20-21 compared to budget. The “Total Expenditures & Obligations” column includes both costs that have been already been incurred and costs that are obligated on purchase orders.

Expenditures by Type:

Table 3: General Fund Expenditures by Type

Expenditure Type	Initial Budget	Budget Adjustments	Total Budget	Total Expenditures & Obligations	% Consumed
Staffing	\$ 53,729,036	\$ 1,001,770	\$ 54,730,806	\$ 12,297,700	22%
Contract Services	\$ 6,586,662	\$ 2,712,644	\$ 9,299,306	\$ 3,935,293	42%
Other Operating Expenses	\$ 3,708,123	\$ 1,432,904	\$ 5,141,027	\$ 1,753,349	34%
Utilities	\$ 2,581,138	\$ 4,310	\$ 2,585,448	\$ 710,994	27%
COVID Expenses *	\$ -	\$ 1,679	\$ 1,679	\$ 318,247	18955%
Grand Total	\$ 66,604,959	\$ 5,153,307	\$ 71,758,266	\$ 19,015,583	26%

* Total expenditures include \$200,000 of small business grants that are being reimbursed through the CARES act

There are no significant variances to point out in the general fund. *It is expected that contract services and other operating expenses track above 25% because annual purchase orders are set up at the beginning of the year and the funds are considered “Obligated” from that point forward.* Staffing should track at a consistent level and 22% is consistent with where the City should be given the Fiscal Health Contingency and the hiring chill.

Expenditures by Department:

Table 4: General Fund Expenditures by Department

Department	Initial Budget	Budget Adjustments	Total Budget	Total Expenditures & Obligations	% Consumed
Admin & IT	\$ 8,102,779	\$ 727,263	\$ 8,830,042	\$ 2,595,435	29%
City Attorney	\$ 778,167	\$ 212,069	\$ 990,236	\$ 376,555	38%
Community Development	\$ 5,325,811	\$ 789,059	\$ 6,114,871	\$ 1,517,366	25%
Finance	\$ 2,998,897	\$ 915,827	\$ 3,914,724	\$ 1,018,789	26%
Fire	\$ 12,615,778	\$ 1,180,765	\$ 13,796,544	\$ 3,657,717	27%
Human Resources	\$ 1,350,586	\$ 93,246	\$ 1,443,832	\$ 472,235	33%
Parks & Recreation	\$ 4,274,301	\$ 172,599	\$ 4,446,900	\$ 976,983	22%
Police	\$ 17,802,862	\$ 172,247	\$ 17,975,109	\$ 4,177,909	23%
Public Works	\$ 13,196,459	\$ 820,880	\$ 14,017,339	\$ 4,217,753	30%
Utilities - Solid Waste (AB939)*	\$ 159,318	\$ 69,351	\$ 228,669	\$ 4,842	2%
Grand Total	\$ 66,604,959	\$ 5,153,307	\$ 71,758,266	\$ 19,015,583	26%

*The singular staff position in this department is being filled on an interim basis by a Water Resources employee. Once filled permanently, all past and current costs associated with this role will be corrected and transferred to the Solid Waste division

All the General Fund departments are tracking in line with budget. The variance in the City Attorney budget is warranted because the budget is so small and over 20% of it is allocated for contract services. Many of these contracts are already under way and the funds have been allocated for the entire year.

2 Enterprise Fund Update

Utilities: Water and Sewer Funds

The tables below include first quarter actuals for FY 20-21 compared to the projection. The “Total Expenditures & Obligations” column includes both costs that have been already been incurred and costs that are obligated on purchase orders.

Table 5: Water/Sewer Fund Revenue *	2019-20	2020-21			Variance from prior year
	Q1 Actual (unaudited)	Total Budget	Q1 Actual	% Received	
Water Fund	\$ 4,753,395	\$ 22,587,885	\$ 4,638,278	21%	-2%
Sewer Fund	\$ 3,387,804	\$ 16,295,606	\$ 3,150,284	19%	-7%

* Does not include debt financing or impact fees

Table 6: Operating Expenses by Type	Initial Budget	Budget Adjustments	Total Budget	Total Expenditures & Obligations	% Consumed
Water Fund	\$ 16,928,253	\$ 1,105,134	\$ 18,033,387	\$ 10,872,038	60%
Staffing	\$ 4,402,502	\$ 77,103	\$ 4,479,605	\$ 928,117	21%
Contract Services	\$ 10,904,439	\$ 916,703	\$ 11,821,142	\$ 9,235,876	78%
Other Operating Expenses	\$ 964,612	\$ 111,328	\$ 1,075,940	\$ 575,119	53%
Utilities	\$ 656,700		\$ 656,700	\$ 132,926	20%
Sewer Fund	\$ 7,841,135	\$ 532,111	\$ 8,373,246	\$ 3,253,947	39%
Staffing	\$ 4,668,962	\$ 79,163	\$ 4,748,125	\$ 980,436	21%
Contract Services	\$ 1,065,092	\$ 299,682	\$ 1,364,774	\$ 976,056	72%
Other Operating Expenses	\$ 1,348,981	\$ 152,231	\$ 1,501,212	\$ 1,121,801	75%
Utilities	\$ 758,100		\$ 758,100	\$ 157,772	21%
COVID Expenses	\$ -	\$ 1,034	\$ 1,034	\$ 17,881	1729%
Grand Total	\$ 24,769,389	\$ 1,637,245	\$ 26,406,633	\$ 14,125,986	53%

Revenue: Revenues are on track. Because of the utility billing timing, the revenues above include only about 2.25 months of revenue. In accordance with an order from the Governor, water services are not being discontinued for non-payment. In addition, the City has chosen not to send past due closed accounts to a collection agency to accommodate customers who are having trouble paying their bills because of the Covid related economic downturn. Both moratoriums have resulted in higher than normal past due account balances. The Utilities department continues to monitor past due account balances and, at the recommendation of the City auditor, has created a “doubtful accounts” general ledger account to record those balances that are unlikely to ever be collected. This will result in a \$34,000 reduction to sewer fund revenues and \$34,000 reduction to water fund revenues.

Water consumption overall in the first quarter of fiscal year 2021 was nearly the same as the same quarter last year. Residential and irrigation consumption increased but commercial consumption decreased as compared to the same quarter last year.

Table 7: Water Consumption Year over Year Comparison

Customer Class ¹	July – September 2019	July – September 2020	Difference
Residential	337,561 units	366,194 units	28,633 units
Commercial	140,215 units	115,696 units	(24,519) units
Irrigation	104,611 units	107,672 units	3,061 units

¹ This table excludes Cal Poly consumption.

Total	582,387 units	589,562 units	7,175 units
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1 unit = 100 ccf

Expenditures: There are no significant variances to point out at this time. It is normal and expected that contract services and other operating expenses track above 25% because annual purchase orders are set up at the beginning of the year and the funds are considered “Obligated” from that point forward. Staffing should track at a consistent level and the actuals seen above are consistent with where the City should be given the Fiscal Health Contingency and the hiring chill.

Parking Fund

The tables below include first quarter actuals for FY 20-21 compared to the projection. The “Total Expenditures & Obligations” column includes both costs that have been already been incurred and costs that are obligated on purchase orders.

Table 8: Parking Fund Revenue *	2019-20	2020-21			Variance from prior year
	Q1 Actual (unaudited)	Total Budget	Q1 Actual	% Received	
Parking Fund	\$ 1,495,994	\$ 2,798,191	\$ 749,244	27%	-50%

* Does not include debt financing or impact fees

Table 9: Operating Expenses by Type - Parking	Initial Budget	Budget Adjustments	Total Budget	Total Expenditures & Obligations	% Consumed
Staffing	\$ 1,177,211	\$ 350	\$ 1,177,561	\$ 244,598	21%
Contract Services	\$ 801,465	\$ 121,119	\$ 922,584	\$ 619,034	67%
Other Operating Expenses	\$ 234,300	\$ 6,054	\$ 240,354	\$ 53,118	22%
Utilities	\$ 201,178	\$	\$ 201,178	\$ 28,889	14%
Grand Total	\$ 2,414,155	\$ 127,523	\$ 2,541,678	\$ 945,639	37%

Revenue: The parking fund significantly lowered its revenue forecast in the 2020-21 budget because of expected losses due to COVID19. The department revenues are tracking in line with the forecast but are significantly lower than prior years. The Parking Fund anticipates that parking meter and enforcement revenues will outperform projections made at Supplement because collection of fees across all parking programs have been re-established sooner than initially planned. Parking structure revenues are likely to align with projections due to offering an additional hour of free parking through the end of the calendar year.

Expenditures: There are no significant variances to point out at this time. It is normal and expected that contract services and other operating expenses track above 25% because annual purchase orders are set up at the beginning of the year and the funds are considered “Obligated” from that point forward. Staffing should track at a consistent level and the actuals seen above are consistent with where the City should be given the Fiscal Health Contingency and the hiring chill.

Transit Fund

The tables below include first quarter actuals for FY 20-21 compared to the projection. The “Total Expenditures & Obligations” column includes both costs that have been already been incurred and costs that are obligated on purchase orders.

Table 10: Transit Fund Revenue *	2019-20	2020-21			Variance from prior year
	Q1 Actual (unaudited)	Total Budget	Q1 Actual	% Received	
Transit Fund	\$ 214,461	\$ 4,808,075	\$ 438,180	9%	104%

* Does not include debt financing or impact fees

Table 11: Operating Expenses by Type - Transit	Initial Budget	Budget Adjustments	Total Budget	Total Expenditures & Obligations	% Consumed
Staffing	\$ 327,181		\$ 327,181	\$ 73,920	23%
Contract Services	\$ 3,139,033	\$ 186,919	\$ 3,325,952	\$ 3,085,185	93%
Other Operating Expenses	\$ 376,800	\$ 68,278	\$ 445,078	\$ 392,628	88%
COVID Expenses	\$ -	\$ 16,000	\$ 16,000	\$ 28,554	178%
Grand Total	\$ 3,843,015	\$ 271,197	\$ 4,114,211	\$ 3,580,287	87%

Revenue: Most of the Transit Fund revenue is from State and Federal grants that are received at the end of the fiscal year; therefore, having received only 9% of the forecasted revenue at this point is normal. Additionally the Transit program still has an unused balance of CARES Act funds that will be cover most, if not all, operating expenses incurred in FY20-21 that is accessible to the program at the end of the fiscal year.

Expenditures: There are no significant variances to point out at this time. It is normal and expected that contract services and other operating expenses track above 25% because annual purchase orders are set up at the beginning of the year and the funds are considered "Obligated" from that point forward. In the case of the Transit fund, the majority of the Contract Services budget is for the annual transportation services contract with First Transit, Inc. Staffing should track at a consistent level and the actuals seen above are consistent with where the City should be given the Fiscal Health Contingency and the hiring chill.

3 Meta City Goal Update

As part of the Supplemental Budget adoption, the Council concluded that the City’s top priority for 2020-21 is to protect the public health of San Luis Obispo, provide essential services, and assist the community in economic recovery via a Meta City Goal. To provide Council with meaningful updates on the goal, staff implemented a detailed tracking mechanism to monitor Meta Goal actions. Attachment B provides a detailed update on all actions thus far. The table below shows a status overview of each of the ten strategies:

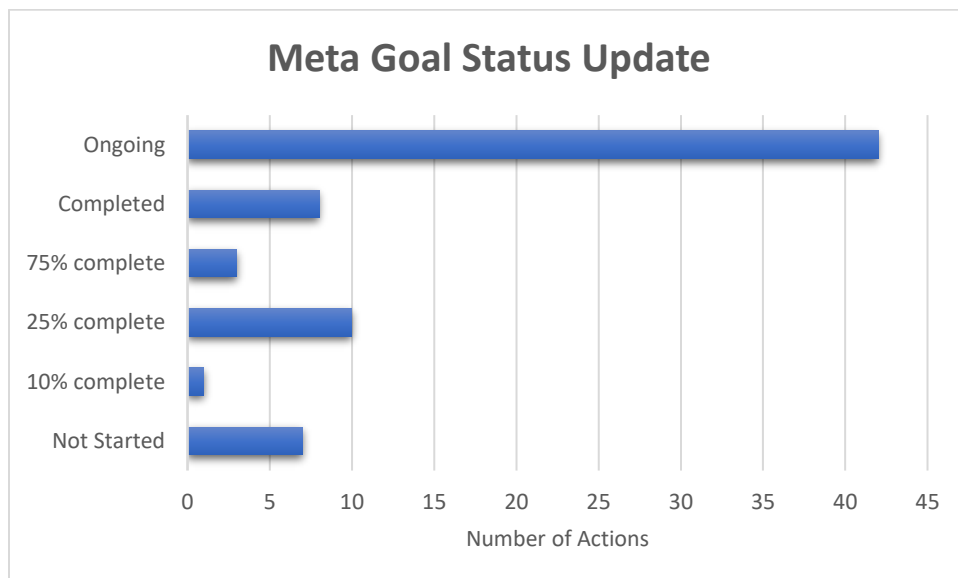
Table 7: Meta Goal Update by Strategy

Strategy	Staff Hours Spent	Operating Dollars Spent	Customers Retained	Businesses Supported*
Business	741	\$ 36,740	0	820
Cal Poly	327	\$ 7,500	0	150
City Organization	2,613	\$ -	0	193
Community	10,698	\$ 39,903	283	1,751
Community Partners	34	\$ -	0	-
Downtown	960	\$ 333,643	0	380
Impacted Industries and Business	1,264	\$ 173,531	0	82
Infrastructure and Capital Projects	1,594	\$ 113,611	100	1
Quality of Life	3,291	\$ 11,850	20	14
Resiliency	598	\$ 7,500	0	450
TOTAL	22,119	\$ 724,278	403	3,841

* A business can be supported multiple times through different efforts. This number refers to the total times a business was supported.

2020-21 Q1 Highlights

- Flexibility with sign regulations
- Fitness in the Parks
- Open SLO investment
- Small Business Grants
- Permit fast tracking (TIPP-FAST)
- Deferral of licenses and permit fees
- Tax deferrals
- Relaxed Parking Enforcement



4 CIP Update – Completed and Ongoing

Public Works CIP Engineering and Management staff have delivered several projects within the first quarter of the fiscal year as listed in the below table, including the installation of new playground equipment at Islay Hill Park, new public safety communications tower and equipment on South Hills, and high efficient LED lighting installations in the 919 Palm Parking Structure. Notable ongoing work includes replacement of Marsh Street Bridge and City facilities maintenance work.

Table 13: Completed and Ongoing CIP projects in Q1

Project	Proponent Department	Status	LRM Funded	Approx. Construction Budget
Anholm Greenway Phase 2 Crack Sealing	Public Works	Completed in July	Yes	\$35,000
Bridge Maintenance 2020	Public Works	Completed in July	Yes	\$75,000
South Hills Radio Site Upgrades	Public Works	Substantially Complete in September.	Yes	\$770,000
Islay Hill Park Playground Equipment Replacement	Public Works / Parks and Rec.	Completed in September	Yes	\$510,000
Swim Center Bath House Roof Repair	Public Works	Completed in September	Yes	\$103,000
Creek Silt Removal 2020	Public Works	Completed in September	No	\$70,000
City Hall Fire Department Connection	Public Works	Completed in September	Yes	\$60,500
919 Palm Garage LED Lighting Retrofits	Public Works	Completed in September	No	N/A
City Facilities HVAC Replacements	Public Works	Completed in October	Yes	\$140,000
Roadway Sealing 2020	Public Works	Completed in October	Yes	\$1,480,000
Storm Drain System Replacement - Bullock CMP	Public Works	Completed in October	Yes	\$316,000
Marsh Street Bridge Replacement	Public Works	Ongoing.	Yes (10%)	\$4,425,000
Fire Station 1 HVAC Replacement	Public Works	Ongoing.	Yes	\$130,000
Railroad Safety Trail Taft to Pepper	Public Works	Awarded. Construction begins in Q2	Yes (13%)	\$3,775,000
Swim Center Shower Repair	Public Works	Awarded. Construction in Q2	Yes	\$25,000
Marsh Garage Elevator Repair	Public Works	Awarded. Construction in Q3	No	\$86,000
Terrace Hill PRV Replacement	Public Works	Advertising. Construction in Q3	No	\$550,000
Neighborhood Greenway Signage Installation	Public works	Final Design Phase.	Yes	\$25,000
Total Budget for Completed or Active Projects in FY 2020-21 Q1&Q2				\$12,575,500

5 Debt Schedule Update

The table below shows total debts and those that had maturity dates during the first quarter and the associated payments.

Table 13: Debt Obligation Update			
<i>General Fund</i>		<i>Sewer Fund</i>	
Total 2020-21 Debt Obligation	\$ 2,759,071	Total 2020-21 Debt Obligation	\$ 1,387,400
Q1 Payment: 2018 Lease Fire Truck	\$ 36,533	No Q1 payments	\$ -
Remaining	\$ 2,722,538	Remaining	\$ 1,387,400
<i>Water Fund</i>		<i>Parking Fund</i>	
Total 2020-21 Debt Obligation	\$ 2,430,429	Total 2020-21 Debt Obligation	\$ 855,500
No Q1 payments	\$ -	2001 State Infrastructure Bank (CIEDB) Loan Marsh St	\$ 358,307
Remaining	\$ 2,430,429	Remaining	\$ 497,193

6 Outlook and Conclusion

The impact of COVID19 on the economic forecast has trended more favorably than originally anticipated but staff expects many of the COVID-19 related impacts to lag the initial shock of the pandemic. With Cal Poly teaching mostly online classes and major events being cancelled, the impact on two of the three major income streams (i.e. sales and transient occupancy tax) remains uncertain. As these tax payments lag, only two months had been fully collected at the time that this report was released. Staff continues to track remittances closely through the City's Revenue division.

The Fiscal Health Contingency Plan remains in full effect with hiring, purchasing, and travel chills and if staffing expenditures continue to track in a linear fashion, there may be slight savings in that category.

It is also important to note that based on unaudited numbers, the City will be unable to follow through with its Fiscal Health Response Plan goals of paying a \$3.0 million toward unfunded liability during FY 2020-21.

The enterprise funds are also tracking in line with budget projections and will likely end the year as stated in the budget.

Quick Economic Stats	
Unemployment Rate (San Luis Obispo City) ² – September 2020	7.0%
Expected Sales Tax Growth for FY 20-21, 21-22, 22-13 ³	1.9%, 6.6%, 3.8%
U.S Consumer Spending 2021 Forecast (as of Sept 2020) ⁴	4.1%
U.S GDP 2021 Forecast (as of Sept 2020) ³	4.0%

² State of California - Employment Development Department. October 16, 2020. Labor Market Information Division. March 2019 Benchmark; <http://www.labormarketinfo.edd.ca.gov> (916) 262-2162

³ HdL Sales Tax forecast as of 10/13/20

⁴ Fitch Ratings: [Fitch Global Economic Outlook for the U.S. – September 2020](#).