

**CITY OF SAN ANTONIO  
CITY MANAGER'S OFFICE**

**TO:** Mayor and City Council

**FROM:** Erik Walsh, City Manager 

**COPIES:** Executive Leadership Team; Troy Elliott, Deputy Chief Financial Officer; Scott Huizenga, Budget Director

**DATE:** March 2, 2021

**SUBJECT: FY 2021 THREE PLUS NINE BUDGET REPORT**

This correspondence transmits the City's FY 2021 budget status through the first quarter of the fiscal year (October through December) with projections on revenues and expenditures for the remaining nine months of the fiscal year (January through September). Also included in this correspondence is the FY 2022 Recommended Budget Calendar and the timeline for the Arts Agencies three-year funding cycle. The materials associated with this transmittal were provided to the Mayor and City Council on Monday, February 15 and were originally planned to be presented on February 17. However, due to the winter storm, the "B" Session agenda changed to accommodate a briefing from CPS and SAWS.

**Background:**

As part of the City's financial management practices, I meet monthly with the Deputy Chief Financial Officer and Budget Director to review the financial performance of the City's budget. Quarterly reports are provided to the City Council.

The FY 2021 Budget reflects the impact of the ongoing COVID-19 pandemic on our local economy. City revenues are \$127 million lower than the FY 2020 Adopted Budget including \$24 million in the General Fund and \$103 million in Restricted Funds. To address lower projected revenues, the adopted budget reduced spending in FY 2021, and the FY 2022 budget plan includes a set of reductions needed to maintain a two-year balanced budget plan.

**Overall Financial Outlook:**

Uncertainty remains in the national, state, and local economy. During the first quarter of the fiscal year, San Antonio experienced better revenue performance in sales tax, airport, and development services revenues compared to the budget. However, hotel occupancy tax, alamodome, convention center, river barge, liquor by the drink tax, and municipal fines revenues are performing below budgeted levels and lower than in FY 2020. The Budget Office will provide an in-depth revenue outlook as part of the five-year financial forecast in the upcoming months.

**FY 2021 3+9 Financial Report**

**General Fund:** The FY 2021 General Fund budget totals \$1.29 billion. Through the first quarter, the General Fund has a favorable financial position of \$11.4 million due to a combination of \$7.0 million in additional revenue and \$4.4 million in lower expenses. The better revenues are due primarily to higher sales tax collections and CPS revenues offset by some sectors that continue to experience a slow

recovery from COVID-19 such as river barge tours, liquor by the drink tax, municipal fines, and EMS transports.

Based on projections for the remainder of the fiscal year, it is estimated that the General Fund will end the fiscal year with a better ending balance of \$3.7 million. This coupled with the better ending balance of \$20 million in FY 2020, that was communicated to City Council in December, results in \$24 million more than at budget adoption. I recommend to the City Council that this balance be reserved to address planned reductions in FY 2022, specifically street maintenance, and unpaid furlough days to civilian city employees.

### **Restricted Funds**

The following paragraphs highlight three of the City's Restricted Funds that are impacted by the national, state, and local economies.

#### **Hotel Occupancy Tax Related Funds**

The nine-percent Hotel Occupancy Tax (HOT) is budgeted at \$61.7 million in revenue for the current fiscal year. For the first quarter, we are already \$5.2 million under the Adopted Budget in HOT tax revenues. In consultation with Visit San Antonio, the year-end projection for HOT tax is expected to be \$46.2 million, which is \$15.7 million below the FY 2021 budget and \$47.3 million below FY 2019 Actuals – a decrease of over 50 percent. Hotel activity remains uncertain for the remainder of the year. In the first quarter, the City experienced a 27.3 percent decrease in hotel room rates and a 37.1 percent decrease in the number of hotel rooms rented compared to FY 2020.

The convention center and alamodome revenues are budgeted at \$16.3 million for the fiscal year. These revenues are close to \$300,000 below budget and anticipated to end the year at \$4.5 million below budget.

The operating expenses for the convention center and alamodome are approximately \$475,000 below budget for the first quarter and anticipated to end the year \$4 million below budget.

Recommendations to address the decline in revenue will be presented as part of the Mid-Year Budget Review in May.

#### **Airport Operating Fund**

The Airport Operating and Maintenance Fund is budgeted at about \$95 million for the year. That compares to roughly \$112 million in the FY 2020 Adopted Budget prior to the pandemic. The fund is supported by airline revenues, concession revenues, and parking revenues. During the first quarter in FY2021, passenger traffic declined over 60 percent compared to the same period in FY 2020. However, revenues in concessions and parking exceeded expectations, and the result was operating revenues of \$2.4 million above the Adopted Budget for the first quarter. The year-end projection for airport revenues anticipates a positive trend for airport activity with revenues at \$3.2 million above the Budget. Operating expenses for the airport are \$700,000 lower than anticipated through the first three months of the year and are projected to remain at that level for the remainder of the year.

### **Development Services Fund**

The Development Services Fund is a \$35 million enterprise fund that is supported by the fees paid by developers for plan reviews and inspections. Development Services revenues outperformed first quarter projections by \$2.2 million due an increase in permit activity. This trend is anticipated to hold for the remainder of FY 2021 with the revenues estimated to be \$4.2 million ahead of the FY 2021 Budget. The department is filling vacant positions that were anticipated to remain vacant resulting in higher than anticipated expenses.

### **FY 2022 Budget Calendar**

Attached to this correspondence is the recommended FY 2022 Budget Calendar that sets the dates for events related to the development of the upcoming operating and capital budget. Please provide your input and any changes to this budget calendar by Monday March 10. A final budget calendar will be distributed to the City Council on March 12 and it will be available to the public on the City's website.

### **Arts Agencies Funding Process Timeline**

On December 17, 2020, City Council adopted new arts funding guidelines called the core grants program for a new three-year funding cycle beginning in Fiscal Year 2022. The Culture and Neighborhood Services Council Committee was briefed on these guidelines at their committee meeting on November 2, 2020. The CORE Grants Program is funded by the Hotel Occupancy Tax (HOT) and provides operational support to eligible nonprofit arts organizations, production costs for events, and project support to individual artists.

Due to the significant negative impact of COVID-19 on HOT revenues, grant awards for operational support grants will be lower than in prior years. Additionally, grants will only be provided to eligible organizations and currently supported festivals. New events will not be eligible.

**Operational Support Grants.** These grants are noncompetitive, and applicants receive funding provided they meet the eligibility criteria. The amount of award is based on availability of funds, size of the organization, whether an organization is considered a culturally specific organization, and a mathematical calculated scale. The grant application will open on March 30, 2021 with applications due on May 11, 2021. A restriction on communications with City Council, their staffs and the San Antonio Arts Commission begins when applications are due on May 11, 2021 and ends when the City Manager proposes the FY 2022 Budget on August 12, 2021.

**Project Support for Individual Artists:** The project support for individual artists is competitive and approximately 15 awards of a maximum of \$5,000 will be available. The grant application will open on March 8, 2021 and will close on June 7, 2021. A restriction on communications for the individual artist grants only applies to the San Antonio Arts Commission as they will be approving the artist grants subject to funds being appropriated in the FY 2022 Budget.

Please contact me if you have any questions or concerns.

#### **Attachments:**

- **Three Plus Nine Financial Report Materials**
- **FY 2022 Recommended Budget Calendar**