



# PROPOSED FY 2020/21 EMERGENCY BUDGET

Finance Department

City Council  
May 19, 2020

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## Background

### FY 2016-2018

Transitioned to biennial budget

General Fund and Measure Z Five-Year Plans

### FY 2018-2020

Added Five-Year plans for major Enterprise funds (Electric, Water, Refuse, Sewer, Parking)

### FY 2020-2022

Biennial budget developed, ready to present and then...

**COVID-19: FY 2020/21 Emergency Budget**

### **COVID-19 Fiscal Impacts** *Things to Remember*



Revenue impacts not observable until FY 2019/20 Quarter 4 (April – June) and later



Shelter-at-home order is the most impactful to City finances



Recovery will take time



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## Charter Budget Requirements

- **Article IV, Section 601(a-c):** Requires the City Manager to annually prepare the City’s budget and capital improvement plan (CIP) for review and adoption by the City Council.
- **Article XI, Section 1101:** Requires that the City Manager provide the City Council with a proposed budget at least thirty-five calendar days prior to the beginning of each fiscal year.
- **Article XI, Section 1102 and 1103:** Requires the City Council to hold the public hearing for the proposed budget adoption, seek public input, and make any revisions to the budget it deems necessary.
- **Select Board/Commissions** are required to consider the annual budget for applicable departments purposes during the process of its preparation and make recommendations with respect thereto to the City Council and the City Manager.
  - **Article VIII, Sec. 806(c):** Planning Commission; Make recommendations concerning proposed infrastructure improvements and redevelopment activities in support of planned land uses
  - **Article VIII, Section 808(c):** Board of Library Trustees; library purposes.
  - **Article VIII, Section 809(b):** Park and Recreation Commission; parks, recreation, parkways and street tree purposes.
  - **Article XII, Section 1202(a):** Board of Public Utilities; Department of Public Utilities budget.



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## Essential Meeting Mandates

### State of California Executive Order N-25-20

11. Notwithstanding any other provision of state or local law, including the Bagley-Keene Act or the Brown Act, a local legislative body or state body is authorized to hold public meetings via teleconferencing and to make public meetings accessible telephonically or otherwise electronically to all members of the public seeking to attend and to address the local legislative body or state body, during the period in which state or local public officials impose or recommend measures to promote social distancing, including but not limited to limitations on public events. All requirements in both the Bagley-Keene Act and the Brown Act expressly or impliedly requiring the physical presence of members, the clerk or other personnel of the body, or of the public as a condition of participation in or quorum for a public meeting are hereby waived.

...

In addition to the mandatory conditions set forth above, all state and local bodies are urged to use sound discretion and to make reasonable efforts to adhere as closely as reasonably possible to the provisions of the Bagley-Keene Act and the Brown Act, and other applicable local laws regulating the conduct of public meetings, in order to maximize transparency and provide the public access to their meetings.



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# FY 2020/21 Emergency Budget Process: Why and When

## Normal Budget

- **Budget development**
  - 2-year budget, 5-year plans
  - Program/service impacts
- **Public body & community feedback**
  - Department presentations
  - Boards/Commissions per Charter requirements
  - Other public bodies
  - Ward meetings/workshops
  - Community group meetings
- **Council Budget Workshop**
- **Incorporate feedback**
  - Balancing measures

## Emergency Budget

- **FY 2019/20 Rollover Budget**
  - Incorporate known and unavoidable items (e.g. MOU impacts; CalPERS UAL payment; debt obligations, election costs for Charter update)
  - Discretionary spending flat
  - Approved personnel changes; reorganizations
- **Council presentation only of proposed budget**
  - Balancing measures
- **Council adoption**
- **Intra-cycle budget updates** with public body feedback

## Reason for Change

- **Essential meetings mandate:** Governor's Stay at Home Order limits public meetings
- **Incorporate recent feedback on FY 2019/20 budget**
  - The 'roll over' allows the City the opportunity to use the budget details, as recently presented and discussed to be duplicated for the FY 2021/21 Emergency Budget
  - Budget Engagement Commission
  - Council
  - Other public bodies



# COVID-19 Impact

## Challenges

- Timing
  - Too early for reliable forecasts – speculative!
  - How long will shelter-at-home order last?
  - Will there be a resurgence of COVID-19 and reinstatement of shelter-at-home?
- Unprecedented
  - Unlike any previous recession
  - Impacts are unique; recovery will be unique



# COVID-19 Impact

## What do we know and how can we prepare?

- Significant fiscal impact
  - Consumer activity drives General Fund revenues
  - Recovery will take time
- Mitigating actions
  - Control costs
  - Identify resources and put contingency measures in place
  - **Monitor and adapt**



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# Citywide Overview

## CITYWIDE FY 2020/21 EMERGENCY BUDGET

Operating Budget	\$1,083,794,930
Capital Budget*	110,063,415
<b>Total FY 2020/21 Emergency Budget</b>	<b>\$1,193,858,345</b>

\***Capital projects** are funded through available operating revenues, bond proceeds, grants, fund reserves, and other funding sources. Bond and grant revenues are not included in the emergency budget but are budgeted when the bond is issued or when a grant is awarded and approved by City Council for use on a capital project.

## CITYWIDE BUDGET SUMMARY - OPERATING

Revenue & Transfers In	\$1,071,410,415
Expenditures & Transfers Out	1,083,794,930
<b>Net Operating Budget</b>	<b>\$(12,384,515)</b>



COVID-19 contingency measures in General Fund and Measure Z



General Fund balancing measures needed

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## General Fund: COVID-19 Impacts



### Property Tax

- Home sales slowing
- Construction slowing
- **Impact will be delayed**



### Licenses & Permits

- Business licenses at standstill
- Permanent business closures
- **Impact is protracted**



### Sales Tax

- Business closures
- Fuel & vehicle sales down
- **Impact is immediate**
- **Sales tax deferral**



### Non-development Charges for Services

- Parks and libraries closed
- **Impact is protracted**



### Transient Occupancy Tax

- Hotel closures
- Consumer behavior
- **Impact is immediate**



### Other Revenues/Rising Costs

- Building & Development Fees
- Utility User Fees & General Fund Transfer
- Operating subsidies for Convention Center, Visitor's Bureau, Fox, Box



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## General Fund Overview

### FY 2020/21 Preliminary Budget

- ✓ \$11.5 million deficit
- ✓ Balancing measures to be discussed

### FY 2020/21 Emergency Budget **COVID-19**

- ✓ \$15.5 million vacancy savings
- ✓ Contingency revenue reductions
- ✓ Balancing measure to be discussed

### GENERAL FUND BUDGET SUMMARY

Revenue & Transfers In	\$280,781,141
COVID-19 Contingency Reduction (10%)	<b>(28,078,114)</b>
<b>Revised Revenue Forecast – Proposed Budget</b>	<b>\$252,703,027</b>
Expenditures & Transfers Out	\$278,400,277
<b>Net Surplus/(Deficit)</b>	<b>\$(25,697,250)</b>

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## General Fund COVID-19 Contingency Revenue Reductions

**General Fund Deficit due to COVID-19 contingency revenue reductions: \$25,697,250**

Revenue	Before COVID-19	Reduction		COVID-19
Property Tax	\$72,300,744	(2.0%)	\$(1,446,015)	\$70,854,729
Sales Tax	69,463,869	(14.1%)	(9,819,584)	59,644,285
Transient Occupancy Tax	7,742,400	(65.0%)	(5,032,560)	2,709,840
Licenses & Non-Developer Permits	9,749,926	(30.0%)	(2,924,978)	6,824,948
Non-Development Charges for Services	11,001,065	(10.0%)	(1,100,107)	9,900,958
Additional Contingency Reduction (e.g., franchise fees, building/other permits, general fund transfer)	110,523,137	(7.0%)	(7,754,870)	102,768,267
<b>Total Revenue Projection</b>	<b>\$280,781,141</b>	<b>(10.0%)</b>	<b>\$(28,078,114)</b>	<b>\$252,703,027</b>



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## Measure Z Overview

FY 2020/21 Emergency Budget (in millions)

	FY 19/20	FY 20/21	FY 21/22	FY 22/23
<b>Beginning Unallocated Reserves</b>	<b>\$39.5</b>	<b>\$9.8</b>	<b>\$11.8</b>	<b>\$13.2</b>
Revenue (Pre COVID-19)	62.3	62.9	63.6	64.2
COVID-19 Contingency Revenue Reduction	(6.3)	(6.7)	(3.9)	(1.5)
Expenditures	85.7	54.3	58.3	57.7
<b>Ending Unallocated Reserves</b>	<b>\$9.8</b>	<b>\$11.8</b>	<b>\$13.2</b>	<b>\$18.2</b>



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## Measure Z Potential Revisions

Spending Item	FY 19/20	FY 20/21	FY 21/22	FY 22/23
General Fund Support - Maintain Programs & Services <i>(Maintain 2020 Level)</i>	\$ -	\$6,531,749	\$6,179,721	\$5,817,132
New Police Headquarters <i>(Defer to 2023)</i>	(2,132,000)	(2,132,000)	(3,652,000)	(277,974)
Museum Expansion & Rehabilitation <i>(Defer to 2023)</i>		(807,550)	(1,533,270)	(213,376)
Downtown Parking Garage <i>(Eliminate)</i>		(807,550)	(1,533,270)	(1,533,270)
Public Safety & Engagement Team Program <i>(Continue at \$2.8M)</i>		1,631,081	1,260,455	1,198,340
<b>Total Potential Revisions Expense/(Savings)</b>	<b>\$(2,132,000)</b>	<b>\$4,415,730</b>	<b>\$721,636</b>	<b>\$4,990,852</b>



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## Measure Z Potential Revisions

- **General Fund Support:** FY 2018-2023 proposed update to the spending plan includes maintaining FY 2019/20 funding level (\$18.3M).
- **Police Headquarters:** FY 2020/21 proposed budget moved \$2.1 million debt payment from FY 19/20 to FY 20/21 since debt was not issued in FY 19/20. Due to COVID-19, defer to FY 22/23; updated debt payment estimates are lower than those currently included in the proposed update to the FY 2018-2023 spending plan.
- **Museum Renovation:** Due to COVID-19, defer to FY 22/23; updated debt payment estimates are lower than those currently included in the proposed update to the FY 2018-2023 spending plan.
- **Parking Garage:** Due to uncertainty in the fund and pending strategic planning, eliminate this spending item.
- **Public Safety & Engagement Team Program:** Personnel included in proposed FY 2020/21 budget and in spending plan through FY 22/23; no non-personnel costs included.



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## Measure Z Potential Revisions - Summary

Potential Adjustments to the Spending Plan Increase/(Decrease) in Spending				
	FY 19/20	FY 20/21	FY 21/22	FY 22/23
Total Potential Revisions Expense/(Savings)	\$(2.1)	\$4.4	\$0.7	\$5.0
Balancing Measure Option	2.0	2.0	-	-
<b>Revised Ending Unallocated Reserves</b>	<b>\$10.0</b>	<b>\$5.5</b>	<b>\$6.2</b>	<b>\$6.2</b>

### Potential Revisions Summary

- Continue PSET through FY 22/23
- Defer/Eliminate building items

### Balancing Measure Option

- Unspent/unallocated contingency to General Fund



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## General Fund Balancing Measure Options

Balancing Measure	Amount
POB Issuance	\$7,000,000
Maintain Measure Z FY 2019/20 Support Level	6,531,749
Allocate Unspent Measure Z Contingency (2019-2021)	6,000,000
Section 115 Trust (\$9.1 million current value)	6,165,501
<b>Net Impact</b>	<b>\$25,697,250</b>

- ! Will achieve a balanced budget without drawing on reserves, but may not maintain 20% reserve level.



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## COVID-19 Watch Items

- **Convention Center** – venue is currently closed, General Fund subsidy
- **Entertainment Fund** – venues are currently closed, General Fund subsidy
- **Public Parking Fund** – suffering from business closures, low reserves
- **Gas Tax Fund** – sales tax from fuel & vehicle sales down, potential capital project impact
- **Measure A Fund** - sales tax, potential capital project impact



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## Recommendations

That the City Council:

1. Receive and provide input on the proposed Fiscal Year 2020/21 Emergency Budget; and
2. Set a public hearing for adoption of the Fiscal Year 2020/21 Budget for June 16, 2020.



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