



## FY 2021/22 BASELINE BUDGETS FOR THE GENERAL FUND AND MEASURE Z

Finance Department

Financial Performance and Budget  
Committee Meeting  
January 8, 2021

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## Background

### FY 2019/20 Actuals

Audit incomplete, but current results show:

- A potential \$17 million savings in the General Fund
- General Fund revenues largely unaffected by pandemic
- Measure Z revenues higher than expected

### FY 2020/21 Emergency Budget

One-year budget adopted due to the pandemic. Included:

- 10% contingency reduction in General Fund revenues due to potential pandemic impacts
- Measure Z contribution to remain at FY 2019/20 level (\$18.2 million)
- Variety of balancing measures - vacancy savings, POB savings, Section 115 Trust withdrawal

NOW: Baseline budget in preparation for FY 2021/22 budget



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## FY 2021/22 Budget Goals

1. Address the General Fund structural deficit and the potential impacts of the pandemic on City finances.
2. Prepare a contingency plan if the General Fund Transfer from the Electric Fund is invalidated by a trial court, in an amount to be determined.



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## Potential Pandemic Impacts

Although meaningful recovery anticipated in FY 2021/22, we still expect impacts on General Fund revenues and expenditures.

- Revenues related to development, recreational activity, travel, etc. are expected to experience a gradual recovery.
- Reduced capital project activity may limit expenditure offsets (Charges to Others) for qualifying expenditures including materials and staff time to individual capital project accounts in Special Revenue and Capital Project funds (e.g. Special Gas Tax).
- Fund Subsidies to the Convention Center and Entertainment Funds may be higher than expected if activity levels do not return to pre-pandemic levels.



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## Structural Deficit

Over the last three years, staff has worked to eliminate inherited budget processes and restructure the General Fund to:

- Improve transparency of General Fund operations
- Quantify the General Fund structural deficit

Estimated structural deficit: \$14.5 million

- \$32.8 million structural deficit without the \$18.3 million Measure Z contribution
- Largely attributable to rising pension and personnel costs

Restricted Funds Capital Projects Convention Center  
One-time Revenue Budget Special Districts  
**Noise in the General Fund**  
Managed Savings Budget Grants Municipal Auditorium  
Fox Entertainment Plaza



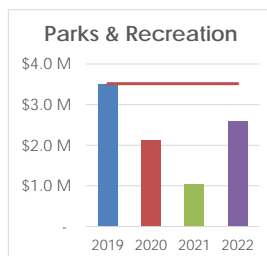
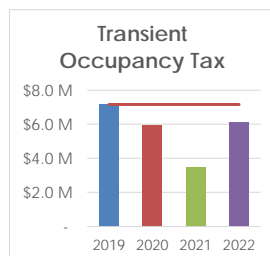
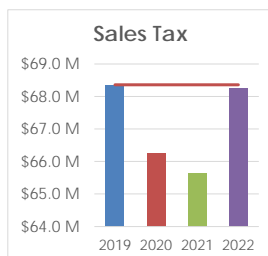
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## Major Revenue Assumptions

Although meaningful recovery is anticipated in FY 2021/22, we still expect pandemic impacts on some General Fund revenues. The largest projected impacts are:



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## Major Revenue Assumptions (cont.)

Other major revenue assumptions include:

- Property Tax: 2.5% growth over FY 2020/21
- Other Financing Sources: Not usually budgeted, but based on ongoing conversations to sell City property, projected at a conservative \$1 million.

**BALANCING MEASURE: \$6 million increase in Measure Z contributions to a total \$24.3M.**



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## Expenditure Methodology

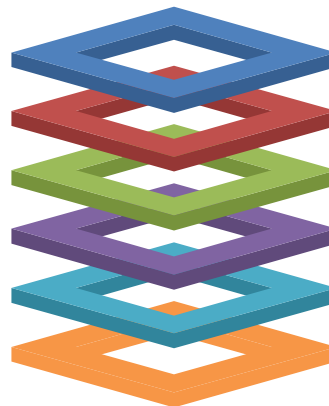
**Personnel**  
Employee demographics (pay rate, annual merit, benefit elections); Worker's Compensation rates; 2% CPI for unknown impacts of MOU negotiations.



**Non-Personnel**  
Departments: Flat against FY 2019/20 adopted budget. Required non-departmental for insurance rates and software maintenance costs.



**Fund Subsidies**  
Convention Center and Entertainment Fund (Fox Block) subsidies set to pre-pandemic estimates; venues expect to return to normal in FY 2021/22.



### Required Debt & UAL Payments

Updated with 2020 POB impacts to match debt service schedules and CalPERS required UAL payments.



### Charges to Others

Expenditure offsets for qualifying expenditures to capital projects reduced based on trend analysis and potential pandemic impacts on capital project activity.



### Cheech Marin Art Museum

Estimated \$800,000 fund subsidy based on recommended management agreement, maintenance, and utilities.

**BALANCING MEASURE: \$12 Million Vacancy Savings.**

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## General Fund Baseline Budget Summary

(Rounded to millions)

	Projected FY 2019/20	Adopted FY 2020/21	Projected FY 2020/21	Baseline FY 2021/22
Total Revenue & Transfers In	\$ 279.7	\$ 271.4	\$ 286.7	\$ 291.5
Total Expenditures & Transfers Out	280.5	271.4	271.1	288.6
<b>Surplus/(Deficit)</b>	<b>\$ (0.8)</b>	<b>\$ -</b>	<b>\$ 15.6</b>	<b>\$ 2.9</b>
<b>Beginning Reserves</b>	<b>\$ 56.0</b>	<b>\$ 70.2</b>	<b>\$ 70.2</b>	<b>\$ 70.2</b>
Surplus/(Deficit)	(0.8)	-	15.6	2.9
Other Budgetary Balances & Changes in Fund Balance	15.0	-	-	-
<b>Ending Reserves</b>	<b>\$ 70.2</b>	<b>\$ 70.2</b>	<b>\$ 85.6</b>	<b>\$ 73.1</b>
20% Reserve Target	54.3	57.7	57.7	58.8
<b>Projected Surplus Reserves*</b>	<b>\$15.9</b>	<b>\$12.5</b>	<b>\$28.1</b>	<b>\$14.3</b>

\*All surplus reserve amounts presented include the 2020 projected surplus which has yet to be set aside for future operational needs.



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## Electric General Fund Transfer

- Trial court ruling (not a judgment) that a portion of the transfer is invalid
- No ruling yet on damages or a remedy
- The trial court judgment, once issued, would still be subject to appeal
- Court has tentatively indicated that \$19 million to \$32 million of the transfer is invalid
- The Electric General Fund Transfer at risk for loss represents between 6.7% and 11.4% of total FY 2019/20 revenues.
- Once the judgment becomes final, staff will return to the Committee with a summary of any financial impact and the City's plan to address that financial impact



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## Measure Z Baseline Budget Summary

(Rounded to millions)

	Projected FY 2019/20	Projected FY 2020/21	Baseline FY 2021/22
Total Revenue	\$ 63.1	\$ 61.8	\$ 63.6
Total Spending Items	80.5	67.6	63.8
<b>Surplus/(Deficit)</b>	<b>\$ (17.3)</b>	<b>\$ (5.9)</b>	<b>\$ (0.2)</b>
<b>Beginning Unallocated Reserves</b>	<b>\$ 39.5</b>	<b>\$ 22.2</b>	<b>\$ 16.3</b>
Surplus/(Deficit)	(17.3)	(5.9)	(0.2)
<b>Ending Unallocated Reserves</b>	<b>\$ 22.2</b>	<b>\$ 16.3</b>	<b>\$ 16.1</b>



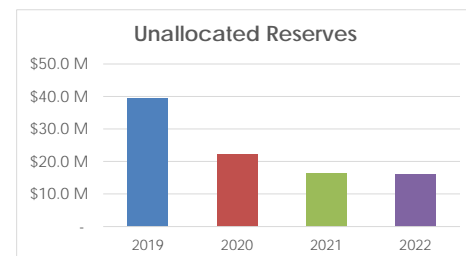
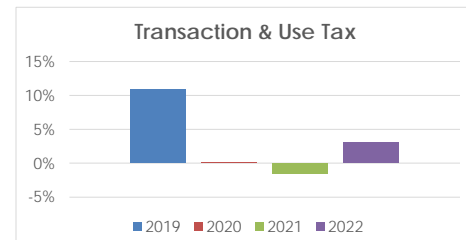
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## Measure Z Baseline Spending Plan

- Updated FY 2019/20 to report projected (unaudited) results
- FY 2019/20 projected unallocated fund balance \$22.2 million (\$8.2 million higher than original projections)
  - Staff recommends using \$6 million as a balancing measure to offset impacts of the pandemic on General Fund revenues
- Baseline revenue projections:
  - FY 2020/21: 1% loss as compared to FY 2019/20 actuals
  - FY 2021/22: 2.5% growth over FY 2020/21 revised projection



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## Measure Z Spending Priorities

BEC requested:

- Long-term strategy for the allocation of Measure Z revenues
- Review current spending items and potentially re-prioritize allocated amounts



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## Next Steps – Budget Timeline

	Dec	Jan	Feb	Mar	Apr	May	June
Department Budget Entry							
Internal Review							
Public Outreach, Department Presentations to the BEC, and Council Workshop							
Proposed Budget to BEC and Council							
Final Budget to BEC, Council Budget Adoption							



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## RECOMMENDATION

That the Financial Performance and Budget Committee receive and provide input on the FY 2021/22 General Fund and Measure Z Baseline Budgets, budget development strategies, and potential balancing measures.



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