

Finance Review Committee Meeting

August 25, 2020

FY21 BUDGET UPDATE DUE TO COVID-19



- **Council Direction for Solving COVID-19 Revenue Impacts:**

- **Follow City Council Approved Financial Policies:**

- Long-Term Financial Policy #229
 - Operating Budget Policy #230
 - Infrastructure Management Policy #231
 - Facilities Management Policy #232
 - General Fund Reserve Policy #233

- **Guiding Principles of City Financial Policies is to:**

- Remain mindful of long-term financial health; recognize that immediate problems require solutions; look to satisfy both short- and long-term objectives concurrently

- **Weigh and Balance Guidance Within Each Financial Policy:**

- Keep investment in maintaining existing City infrastructure and facilities
 - Count Federal, State and County emergency funding when it is certain
 - Reduce budget line items
 - Minimize service reductions
 - Prioritize use of City Council designated funds
 - Utilize reserves with expectation that future issues may emerge

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- May 2020 Council adopted FY20 budget amendments:
 - Estimated FY20 COVID-related revenue hit was approximately \$4.2mm

Solutions approved:

- Planning, Building & Engineering revenues +\$719k
- Department line item savings - (\$1.5mm)
- City Attorney budget adjustment + \$734k
- Eliminate transfer to Facilities Fund – (\$100k)
- Reduce transfer to Community Investment Account – (\$1mm)
 - (Balance reduced to \$4mm)
- Reduce set-aside for unfunded pension liability – (\$1mm)
 - (Balance reduced to \$4,000,000)
- Use Economic Stability Reserve – (\$935k)
 - (Balance reduced to \$3.4mm, or 78% of Policy level)

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Approved FY20 solutions and positive FY20 results:

- Finished with Unassigned Fund Balance at 147.7% of Policy level
- Economic Stability Reserve returned to funding at 100% of Policy level
- Extreme Event Reserve at 100% of Policy level
- Doheny Village Beautification Reserve intact at \$826k
- Community Investment Account at \$4mm (used \$1mm in FY20)
- Unfunded Pension Liability reserve at \$4mm (used \$1mm in FY20)

Council approved applying for Federal, State and County relief funds, to be used in priority order as follows:

- Replenish Economic Stability Reserve
- Solve projected FY21 and FY22 revenue shortfalls
- Replenish unfunded pension liability Set-Aside account
- Replenish Community Investment Account

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Summary of FY20's financial results (unaudited):

- General Fund revenues:
 - Finished \$900k better than amended budget of \$36.8mm
 - Notable variances:
 - TOT +\$360k
 - Sales Tax +\$240k
 - C&D Deposit Forfeitures +\$382k
 - Investment Income +\$103k
 - Grants continued to FY21 -\$247k
- General Fund expenditures:
 - Finished \$1.6mm less than amended budget of \$41.4mm
 - Note: \$489k of purchase orders to be carried-over to FY21
- **Economic Stability Reserve replenished to Policy +\$935k**
- **Unassigned Fund Balance finished \$1.3mm better than Policy**

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Summary of FY21 budget update (#'s vs. FY21 adopted budget):

- Starting point, increase Reserves to Policy levels:
 - Economic Stability Reserve \$4.4mm (11% of budgeted operating revenue)
 - Extreme Event Reserve \$3.6mm (9% of budgeted operating revenue)

Proposed amendments to the FY21 budget:

1. Use excess beginning Unassigned Fund Balance of \$1.3mm;
2. Decrease revenue projection a net \$5.95mm;
3. Increase budget for carry-over Purchase Orders - \$489k;
4. Decrease personnel costs \$760k;
5. Decrease Department line-item budgets \$2.1mm; and,
6. Tap Economic Stability Reserve \$2.2mm (to 50.5% of Policy)

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1. Use excess beginning Unassigned Fund Balance of \$1.3mm:
 - Combined application of City Council Financial Policy's #233 and #234 would direct that the prior year's excess Unassigned Fund Balance be transferred to the Community Investment Account;
 - The Community Investment Account, per Policy #234, is limited to one-time uses such as projects on the capital unfunded projects list included in the adopted budget, reduction of long-term liabilities, special studies, events, etc.
 - It is recommended that these Policy requirements be waived and allow for use of the excess funds to help address the unprecedented, hopefully short-term, COVID-19 impact on revenues.

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2. FY21 Revenue projection decreases a net \$5.95mm from the Adopted Budget:

- Hotel TOT reduced \$5.9mm*
- Sales Tax reduced \$1mm*
- STR TOT reduced \$250k*
- Property-related taxes increased \$441k
- Licenses & Permits increased \$300k
- Investment Income increased \$225k
- Intergov't Cost Reimbursements increased \$746k (CARES Act)
- State Grants increased \$150k (carryover projects)
- Lantern District Impact Fee revenue reduced \$250k
- Gas Tax transfer in reduced \$590k (swapped for reduced transfer out)
- Charges for Services increased \$134k
- Net all other revenues increased \$46k

* *COVID-19 related impact*

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3. Carryover purchase orders increase expenditure budget \$489k
 - Actuarial Services \$5k
 - Doheny Village EIR \$107k
 - Sea Level Rise Study \$103k
 - Housing Element Study \$198k
 - Housing Services Review \$9k
 - General Plan Economic Study \$47k
 - Doheny Village Connectivity Study \$21k

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4. Personnel costs decreased \$760k

- Vacancies:
 - Assistant City Manager/Administrative Services Director
 - Senior Administrative Assistant – Administrative Services
 - Management Analyst – Economic Development
 - Building/Facilities Maintenance Worker – General Services
 - One Pending Retirement
- Employee raises cut from budget
- Cash-out of accrued paid-time off budget reduced
- Reassigned Community Services Recreation staff to assist with CARES Act funded COVID-response programs, and to backfill other vacancies and workload assignments

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5. Department line-item reductions \$2.1mm:
- Limits service reductions
 - 61-2330 Sheriff's base contract & special event savings \$727k
 - 52-2350 Street maintenance \$193k
 - 53-2230 Contract traffic engineering consultant \$40k
 - 53-2530 Safety lighting/traffic signals \$52k
 - 55-2550 Park maintenance \$180k
 - 55-2450 Landscape medians \$120k
 - 55-2470 Trees maintenance \$80k
 - 81-2410 Community Activities \$68k
 - 81-2230 Professional services \$50k
 - 99-2230 Professional Services \$45k
 - 99-2999 Operating Contingency \$100k
 - About 60 other line items each with reductions under \$30k

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6. Use of Economic Stability Reserve \$2.2mm (50.5% of Policy)

- General Fund Reserve Policy #233:
 - Policy sets amounts in reserves based on budgeted operating revenue;
 - FY21 adopted budget operating revenues are \$39.8mm;
 - FY21 updated budget operating revenues are \$34.4mm;
 - Staff is using the adopted budget operating revenues to compute required reserve amounts, not the lower updated operating revenues;
 - Extreme Event Reserve set at 9% - remains 100% funded, or \$3.6mm;
 - Unassigned Fund Balance set at range between 4% and 7%; proposed amendments to budget keeps it fully funded at 7%, or \$2.8mm;
 - Economic Stability Reserve set at 11% of budgeted operating revenue; proposal to use \$2.2mm to address FY21 COVID-related revenue hit; reduces funding level \$2.2mm, or 50.5% of Policy
 - Should not use more than 50% of any reserve in any given year;
 - Develop plan to replenish the reserve due with 180 days of its use

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Summary of other funds on hand that are not committed:

- Economic Stability Reserve \$2.2mm
- Unassigned Fund Balance \$2.8mm (roughly \$1.6mm needed for cash flow)
- Section 115 Trust \$4mm
- Community Investment Account \$4mm
- Doheny Village Account \$826k
- Facilities Fund Unassigned Fund Balance \$1.6mm
- Extreme Event Reserve \$3.6mm

- Total \$19mm

- Not recommending to use these other funds, just providing this list for information purposes

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Risks to FY21 Budget:

- COVID-19 surge in Fall/Winter and impacts to travel/tourism related revenues (TOT and Sales Tax);
- State/County guidance for business operations does not change or becomes more restrictive – continued or worsening impact on hospitality industry and major event cancellations;
- Development/construction dramatically slows;
- Costly legal matters occur;
- Other...

Next Steps:

- Consider input from Financial Review Committee
- City Council presentation 9/1/20
- City Council consideration 9/15/20
- Provide regular updates throughout FY21
- Prepare the FY22 / FY23 budgets, including plan to replenish reserves