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Title: Presentation of the Fiscal Year 2020-2021 Proposed Operating Budget (Finance Director Charelian).
DISCUSS AND PROVIDE DIRECTION

Sponsors:

Indexes:

Code sections:

Attachments: 1. FY 2020-2021 Proposed Budget, 2. Minor Cuts Summary, 3. Major Cuts Summary, 4. Potential Revenue Enhancement and Other Expenditure Reductions, 5. CalPERS UAL Ten Year Projection, 6. Parks and Recreation Program Profit & Loss Estimates

Date	Ver.	Action By	Action	Result
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TO:
Honorable Mayor and Members of the City Council

THROUGH:
Bruce Moe, City Manager

FROM:
Steve S. Charelian, Finance Director
Henry Mitzner, Controller
Libby Bretthauer, Senior Financial Analyst
Marcelo Serrano, Management Analyst

SUBJECT:
Presentation of the Fiscal Year 2020-2021 Proposed Operating Budget (Finance Director Charelian).
DISCUSS AND PROVIDE DIRECTION

RECOMMENDATION:
Staff recommends that the City Council receive this report on the Proposed Operating Budget for Fiscal Year 2020-2021 and provide direction.

FISCAL IMPLICATIONS:
The Proposed Budget for FY 2020-2021 includes revenues and expenditures for all of the City's Funds. The document includes conservative estimates for ongoing operations as well as Capital Improvement Projects (CIP) previously presented to the City Council on May 7, 2020.

From initial projections compiled before March, total General Fund Revenues were reduced by nearly \$5.5 million due to impacts of the COVID-19 Stay at Home order. Accordingly, staff proactively included significant budgetary reductions to minimize the General Fund deficit and impact on

reserves.

As presented in the Proposed Budget, the General Fund has a projected deficit of \$154,524. Any year-end budget deficit will draw upon unreserved fund balance just as previous budget surpluses have added to the balance.

Revenues	\$73,076,730
Expenditures	<u>\$73,231,254</u>
FY 2020-2021 Proposed Deficit	(\$154,524)

Like many local governments, our anticipated budget deficit is forcing difficult decisions that will affect service levels and programs. Furthermore, as COVID-19 conditions continue to fluctuate, our General Fund surplus/deficit estimate (i.e. the balance of revenues to expenditures) will change as we refine our projections and economic assumptions when new data is released.

The current projected deficit is the result of assumptions that economic activity would be impacted more severely during the first six months of the fiscal year (July through December), with commerce potentially returning closer to normal levels after January 1, 2021. When contemplating a “worst case” scenario of a second wave of illnesses and/or an extended shutdown, staff estimated revenues could potentially decline by another \$6.0 million.

The good news is that our City has weathered economic downturns before, with minimal long-term impacts, thanks to our conservative financial management approach to budgeting and history of prudent planning. The City’s General Fund has reserves greater than the Government Finance Officers’ Association (GFOA) recommendation of “no less than two months of regular general fund operating revenues or regular general fund operating expenditures”, which equates to roughly 17%. The City’s current Financial Policy reserve is 20% of operating expenditures, or about \$14.6 million in FY 2020-2021. The City Council has also set aside \$4.0 million as an “Economic Uncertainty” reserve.

After taking into account the projected deficit of \$154,524, and transfers out from the General Fund to other funds totaling million \$2.2 million, the General Fund’s Undesignated Fund Balance is estimated to be \$6.3 million at the end of FY 2020-2021. Together, the designated and undesignated fund balance totals \$24.9 million, which will be drawn upon for future funds transfers or, if necessary, to temporarily fund operations.

The main transfers out from the General Fund for FY 2020-2021 are \$185,802 to the Street Lighting and Landscape Fund and \$1.78 million to the Stormwater Fund and \$268,751 to the Prop A Fund.

BACKGROUND:

On February 18, 2020, staff presented the FY 2019-2020 Mid-Year Budget Report. At that time, a General Fund surplus of \$4.1 million was projected due to higher than expected revenues such as Property Tax, Interest Earnings and Transient Occupancy Tax, as well as Expenditure savings from Salaries & Benefits, Contract Services, and Internal Service Charges. Shortly thereafter, the COVID-19 pandemic and economic shutdown occurred. Staff immediately started reworking the FY 2019-2020 year-end estimates to provide an updated assessment of fund balances and reserves.

As revised, the FY 2019-2020 General Fund operating budget surplus is projected to be \$1.9 million at the end of the fiscal year.

Revenues	\$73,020,737
Expenditures	<u>\$71,147,482</u>
FY 2019-2020 Proposed Surplus	\$1,873,255

The anticipated surplus is primarily due to savings expected from vacant positions. Additional savings were incorporated to reflect the City programs and services temporarily stalled or postponed in line with the Stay-at-Home orders. The greater impact resulted from revenue reductions in the last quarter totaling \$3.6 million.

With these revised projections, the unreserved (available) General Fund balance on June 30, 2020 is projected to be nearly \$8.3 million after accounting for financial policy designations. These funds will be drawn down by budgeted transfers to relieve future anticipated deficits in the Stormwater Fund, Street Lighting & Landscape Fund, and Prop A (Transit) Fund.

DISCUSSION:

At this time, the full extent of economic impacts in FY 2019-2020 and 2020-2021 from the COVID-19 pandemic and resulting Stay-at-Home orders remains unknown. As a beach community and regional destination for fine dining, hospitality and retail shopping, significant portions of our General Fund revenues are contingent upon the ability of people to travel and support our local businesses. Without the ability to return to pre-pandemic levels of service, our business community, like many others in the area, is not functioning at full capacity, which also impacts our City tax revenues. However, as the length of the shutdown and allowable level of services (once reopened) are still undetermined, so too are our ultimate revenue impacts.

One of our greatest challenges during the development of this budget has been these changing dynamics affecting City revenues. The City's most significant General Fund revenue source, Property Tax, remains stable at this time. However, Sales Tax and Transient Occupancy Tax were both immediately and drastically impacted by the Stay-at-Home orders and resulting business closures. The sudden and severe declines in retail sales and travel/tourism activities were unprecedented in scope and therefore have made it difficult to forecast the ultimate budgetary impacts. City staff has made every effort to prudently and judiciously estimate FY 2020-2021 revenues, and reduce expenditures accordingly, but it should be noted that the severity of the coronavirus-fueled economic shutdown could be underestimated or overestimated. Simply put, the economic impacts are unpredictable at this time, and therefore we intend to provide regular budget updates during City Council meetings as more information becomes available, in order to review the City's financial position and seek adjustments as necessary.

Proposed Budget

To obtain an overview of the Proposed Budget, staff recommends that City Council first review the City Manager's Budget Message (*located in the beginning of the budget document attachment 1*). The Message includes an explanation of the City's current economic outlook, updates on key revenue sources, and a comprehensive summary of each City fund. Following the Message is the Summaries section, which presents revenues and expenditures by fund and by category.

The next section includes department overviews. As the budget continues to be refined, this section

will be enhanced with department narratives, including service level trends and key initiatives.

An updated Five Year Forecast (through FY 2024-2025) is also included in the budget document. A detailed explanation of the Forecast will be presented during the budget presentation. The projections take into account known changes on the horizon (including the City's CalPERS pension contributions) as well as staff estimates on less definitive areas such as revenue growth (or declines), workers compensation and medical costs. It covers all City funds and includes the proposed five year Capital Improvements Plan approved by the City Council on May 7, 2020.

The final section of the Proposed Budget includes various schedules and tables as well as the City's current Financial Policies and Budget Policies.

As the City Council directs changes to the Proposed Budget and CIP, all of these components will be updated accordingly.

Budget Process and Opportunities for Community Input

The budget@citymb.info email option has been useful for gathering input from the community, and it will again remain active throughout the budget process in order for the community to communicate budget priorities to staff.

The Beach Reporter recently included an advertisement announcing the budget discussion schedule, which is as follows:

Thursday, May 28 City Council Meeting - 8:00 AM
Tuesday, June 2 City Council Meeting - 6:00 PM
Thursday, June 4 City Council Meeting - 8:00 AM
Tuesday, June 9 City Council Meeting - 6:00 PM (as needed)
On or before Tuesday, June 30, 2020 Public Hearing and Budget/CIP Adoption - 6:00 PM

The Public Hearing date of June 30th is subject to change. This date is being provided as the latest date the City Council can adopt the Operating budget before the new fiscal year begins on July 1.

Attachments

In addition to the Proposed Budget, Staff has included the following other documents for City Council review and discussion:

- Minor Budget Cuts included in the Proposed Budget, organized by:
 - City-wide by descending amount
 - By department
 - Summary by object, fund and department
- Major Budget Cuts included in the Proposed Budget, organized by:
 - Programs by descending amount
 - Special Events
- Potential revenue enhancement and other expenditure reductions (not included in the Proposed Budget) needing City Council direction
- CalPERS 10-year projections based on hypothetical FY 2019-2020 Investment Return Projection of 0%

- Parks and Recreation Program Profit & Loss estimates

These documents and their contents may be discussed with tonight's presentation or during one of the future meeting dates listed above.

PUBLIC OUTREACH:

Past and future opportunities for public input are described above.

ENVIRONMENTAL REVIEW:

The City has reviewed the proposed activity for compliance with the California Environmental Quality Act (CEQA) and has determined that the activity is not a "Project" as defined under Section 15378 of the State CEQA Guidelines; therefore, pursuant to Section 15060(c)(3) of the State CEQA Guidelines the activity is not subject to CEQA. Thus, no environmental review is necessary.

LEGAL REVIEW:

The City Attorney has reviewed this report and determined that no additional legal analysis is necessary.

ATTACHMENTS:

1. FY 2020-2021 Proposed Budget
2. Minor Budget Cuts
3. Major Budget Cuts
4. Potential Revenue Enhancement and Other Expenditure Reductions
5. CalPERS UAL Ten Year Projection
6. Parks and Recreation Program Profit & Loss Estimates