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Report to Mayor and City Council

Tuesday, May 19, 2020

Discussion

SUBJECT:

FISCAL YEAR 2020-2021 ANNUAL BUDGET WORKSHOP #3 (CITY COUNCIL).

I. SUMMARY

This is the 3rd and final budget workshops before considering adoption of the Fiscal Year 2020-2021 budget in June 16, 2020. Due to the Coronavirus pandemic and the City Council's declared emergency on March 17th, the General Fund projection has changed compared to the information provided to City Council during budget workshop #1. One purpose of tonight's workshop is to finalize direction from City Council on the proposals that would change the current budget structure.

Finance staff is assuming disruption to the City's revenue forecast through the second quarter of Fiscal Year 2020-2021 at least, with projected Fiscal Year-2021 revenues of \$81.6. This is \$5.3 million (or 6%) below last year's forecast. Staff was able to realize about \$4 million in budget reduction and propose closing that deficit with one-time funds in the amount of \$3.3 million from the City's reserves.

II. RECOMMENDATION

1. Cancel the City's large scale Special Events through the end of December, 2020.

2. Suspend City programs that were previously cost neutral that may become financially unfeasible because of size restrictions.
3. Provide a limited hiring freeze to help reduce the Fiscal Year 2020-2021 personnel budget.
4. PROVIDE additional direction to staff regarding the draft Fiscal Year 2020-2021 budget.

III. ALTERNATIVES

TAKE another action deemed appropriate by City Council.

IV. BACKGROUND

The City Council has held FY18-19 budget workshops on March 17th and April 21st. This is the 3rd budget workshop.

Personnel Budget:

To help reduce the General Fund budget deficit, a limited hiring freeze that lasts for a specified period or simply extends the time a position is vacant will provide the City with immediate financial relief. The total vacant positions stand at 34 positions with an estimated cost/savings of \$1,510,000 for the next 4 months. The City's estimated total personnel costs for Fiscal Year 2020-2021 are \$39.7 million. The total 34 vacant FTEs are estimated at \$3.45 million. Staff is recommending an annual hiring freeze at 9% vacancy rate. This will generate of \$2.3 million General Fund annual savings.

The City Manager will review vacancies on a case-by-case basis taking into account such factors as length of time a position has been vacant, the impact of the vacancy on providing critical services and whether it will result in overtime costs. We will consider investments in cost-saving technology upgrades as well as structural changes that enable the City to provide services more efficiently.

Department Name	Budgeted FTEs	Vacant FTEs	Vacancy Rate
Public Works	130	10	8%
Community Services	66	8	12%
Community Development	24	5	21%
Human Resources	11	3	27%
Public Safety	23	3	13%
Finance	32	1	3%
City Manager's Office	6	1	17%
Information Technology	8	1	13%
City Clerk's Office	4	1	25%
City Treasurer's Office	4	0	0%

City Council's Office	5	1	20%
Public Information Office	4	0	0%
TOTAL	317	34	12%

Professional Development Expenditures Reduction

Although professional development for our employees has been and continues to be a priority, the reality is that the COVID-19 pandemic has greatly limited or even eliminated travel for many local governments; therefore, that portion of the professional development budget that involves travel to a conference or training program out of the City will be able to either be reduced or eliminated until stay-at-home directives change. As more training is converted to platforms such as Zoom that enable virtual participation, expenses for all but registration fees may be eliminated.

The table below depicts the budget allocation by department in the current year. Of the funds allocated to HR & Risk Management, \$150,000 was used for programs HR created for our employees that were held at our facilities and did not involve travel. That is the type of training we would want to continue.

Staff is also recommending the elimination of professional development budget authority by department (as shown below) and implementation of a \$100,000 centralized training budget that will be managed by Human Resources and follow a process where travel is restricted and trainings will require approval by the City Manager. These actions are projected to result in a \$97,9K in savings.

DEPARTMENT	Status-Quo	Proposed Budget	Budget Reduction
HR & RISK MANAGEMENT	\$151,500	\$251,500	
COMMUNITY SERVICES	\$81,650		
CITY MANAGER OFFICE	\$37,040		
PUBLIC WORKS	\$34,700		
FINANCE	\$15,700		
COMMUNITY DEVELOPMENT	\$12,300		
CITY CLERK	\$10,500		
CITY TREASURER	\$6,000		
Total	\$349,390	\$251,500	\$97,890

Operating & Maintenance (Non-Personnel) budget

The following table shows a proposed 15% General Fund reduction in eight City departments' non-personnel budget. This will generate a \$2.3 million annual savings.

Department	FY 19-20 Adopted Budget	15% Proposed Reduction	FY 20-21 Proposed Budget
COMMUNITY DEVELOPMENT	5,209,570	781,436	4,428,135
PUBLIC WORKS	4,992,704	748,906	4,243,798
COMMUNITY SERVICES	2,591,507	388,726	2,202,781

PUBLIC SAFETY	1,450,981	217,647	1,233,334
FINANCE	662,395	99,359	563,036
PUBLIC INFORMATION	251,415	37,712	213,703
CITY MANAGER OFFICE	190,080	28,512	161,568
CITY TREASURER	139,950	20,993	118,958
Total	15,488,602	2,323,290	13,165,312

Community Development's anticipated 15% cuts to the proposed Fiscal Year 2020-2021 budget are from the Planning Division's contracts account. As Planning has started to move to a deposit-based system to pay for necessary consultant services, there has been less of a reliance on the general fund to fund these services. There is still a need to fund consultant services for work that is done for City projects, but the reliance on the general fund for developer projects continues to be reduced.

Finance department's reduction of \$99,359 (15% of non-personnel budget) can be achieved by postponing the Finance-Human Resources Office Space Furniture Replacement project. Both departments will continue the usage of the current 30 workstations layout.

Public Safety's reduction of 15% totals \$217,647. O&M reductions will be achieved by reductions across the department for equipment repairs, supplies, finger printing services and elimination of costs related to old equipment being removed. Sufficient funds are available for current levels of operation.

The City Treasurer's Office 15% reduction totals \$20,993. This reduction will come from a cut in the departments training, travel and office supplies. Sufficient funds are available for current levels of operation.

While there are small across-the-board reductions in every line item in Public Works, three cuts represent about 2/3 of savings. The proposed reduction in the department will represent more than \$750,000 in savings as follows:

1. On call engineering and architecture services (about \$500,000 or about a 50% reduction). The on call program was set up to expedite the design process for the City's capital projects. Nearly all our street projects are grant funded and ultimately the design costs are also covered under the grants. We will look for a mechanism to set up a master account to avoid budgeting funds for each contractors' not-to-exceed amount, which results in overbudgeting what is needed.
2. Building Maintenance (\$147,500). This would be the result of looking for some efficiencies but possibly deferring low-priority improvements.
3. Roadway Maintenance (\$113,800). This would be the result of looking for some efficiencies but possibly deferring low-priority improvements.

The City Manager's Office 15% reduction totals \$28,512. This reduction will come from the O&M equipment rental account 101-50-520-101-7002, leaving sufficient funding for any anticipated rentals over the upcoming fiscal year.

Additionally, the Public Information Office will reduce its O&M budget by 15%, which totals

\$37,712. This reduction will be met from O&M Maintenance and Repair account 101-50-520-101-7002 for \$8,000 and O&M Operations equipment rental account 101-50-520-101-7002 for \$30,000, leaving sufficient funding for any anticipated costs over the upcoming fiscal year.

Community Services O&M adopted budget is \$2,591,507.00, of which a 15% reduction total is \$388,726. Cost saving measures across the department will result from the closures we are experiencing during the COVID-19 pandemic. Sufficient funds are available in the event that the City returns to full operations.

The following departments will see an increase (or status-quo remains) to their non-personnel proposed budget for Fiscal Year 2020-2021. The total anticipated budget increase is \$1.5 million.

Department	FY 19-20 Adopted Budget	Increase	FY 20-21 Proposed Budget
INFORMATION TECHNOLOGY	1,299,043	152,033	1,451,076
HUMAN RESOURCES	1,447,552	45,230	1,492,782
CITY CLERK	158,100	299,514	457,614
PS- Sheriff Contract	20,905,000	1,045,250	21,950,250
Total	23,809,695	1,542,027	25,351,722

The increase in Information Technology's proposed budget is explained in detail in Exhibit 5. The increase is due mainly to the implementation of two projects: Office-365 and Replacement of Microsoft Servers. Human Resources Department's \$45 thousand budget increase is requested to cover the insurance premiums that are higher compared to Fiscal Year 2019-2020 budget. The City Clerk's Office will be managing the General Municipal Elections this November. The estimated elections' cost the City received from the Los Angeles County Registrar is \$323,303 (Exhibit 6). The City Clerk reduced its non-personnel budget by 15% as directed by the City Manager's Office and the General Fund savings realized is \$23,789. This makes the total budget increase equal \$299,514 as stated on the table above.

Staff received preliminary information from the Los Angeles County's Sheriff Department indicating an increase of 5% (or \$1,045,250) to the budget compared to Fiscal Year 2019-2020.

City Special Events

Preventing the exponential spread of the COVID-19 virus necessitated the cancellation of all large public gatherings beginning shortly after the pandemic reached California. The City acted responsibly by cancelling its large-scale Special Events through August 2020. Additional cancellations are warranted to comply with State and County Recovery plans that are attempting to manage the spread of the virus. Large public gatherings are not allowed until Stage 4 in the County's "Roadmap To Recovery".

Direct costs for large scale events for Fiscal Year 2020-2021 are estimated to be \$290,000 (Exhibit 3). Staff is recommending cancelling the City's large-scale Special Events through the end of December 2020, which will generate \$155,000 of General Fund Savings. Extending this further may be warranted if the County is not able to move to Stage 4 of the

Recovery Plan before the end of December.

Community Services Programs

Staff is recommending the suspension of certain Community Services Programs that will be impacted by the COVID-19 social distancing requirements such as class limit and number of groups allowed that would no longer be economical. These programs are likely to include Kids Club and Day Care. Staff will present the financial impact information during the Council meeting as part of the Policy Questions presentation.

Summer Youth

The draft Fiscal Year 2020-2021 budget includes funding for 50 Summer Youth working 6 weeks from July 9th to August 2nd for a maximum of 100 hours each. Staff anticipates the costs to be approximately \$65,000. Staff recommends that the City Council consider a reduced Summer Youth program where each City Council member is allocated an agreed upon number of youth to whom they can give assignments but who would work remotely. If each City Council member took 3 youth, this would cost approximately \$20,000, generating \$45,000 of General Fund Savings.

Pension Obligation Bond

In January 2020, the City Council authorized the issuance of the Pension Obligation Bonds to prepay the City's outstanding Unfunded Accrual Liability (UAL) for the general employees CalPERS plan. As of June 30, 2018, the most recent CalPERS valuation date, the City's retirement plan was 64.8% funded, with a net liability of approximately \$107 million expected as of June 30, 2020.

The City completed the judicial validation process on May 1, 2020, and it is currently in the 30 day waiting period before the judgment is official. At this time, there is only one remaining action needed by the City Council to issue the Bonds in June, to approve the Preliminary Official Statement to be used to market the Bonds to investors.

The table below shows the analysis for the AA- rated Bond, structured with no and low principal payments in the early years. The City's anticipated GF savings for Fiscal Year 2020-2021 is approximately \$4.1 million. A separate item presented at tonight's meeting will discuss different scenarios for debt service payments.

FYE June 30	UAL Payments	Debt Service	Reduction
2021	7,800,842	3,721,000	4,079,842
2022	8,618,581	4,563,000	4,055,581
2023	9,284,153	6,051,000	3,233,153
2024	9,670,083	7,404,000	2,266,083

2025	10,114,816	8,084,000	2,030,816
2026	9,890,656	8,083,000	1,807,656
2027	9,977,460	8,080,000	1,897,460
2028	10,251,840	8,084,000	2,167,840
2029	10,533,767	8,081,000	2,452,767
2030	10,823,443	8,081,000	2,742,443
2031	11,121,087	8,081,000	3,040,087
2032	10,421,927	8,080,000	2,341,927
2033	10,261,326	8,083,000	2,178,326
2034	9,413,414	8,084,000	1,329,414
2035	9,062,837	8,085,000	977,837
2036	8,532,679	8,080,000	452,679
2037	7,630,590	7,630,000	590
2038	7,184,607	7,184,000	607
2039	6,708,324	6,705,000	3,324
2040	6,357,664	6,357,000	664
2041	6,158,081	6,154,000	4,081
2042	5,145,902	5,145,000	902
2043	5,225,106	5,224,000	1,106
2044	3,919,622	3,916,000	3,622
Total	204,108,807	167,040,000	37,068,807

City's Sales Tax Revenues

The table below shows an updated budget projection of the City's sales tax revenue for Fiscal Year 2019-2020. This estimate is reflecting the impacts (many still unknown) of the COVID-19 pandemic. The forecast generally assumes that the virus will have run its course by September and that revenues will bottom out by the second quarter of Fiscal year 2020-2021. This is an unprecedented situation and therefore this is something that we will have to monitor and adjust as circumstances dictate going forward.

Fiscal Year 2019-2020 Year End Projections Sales Tax revenue

Adopted Budget for FY 2019-20 \$24,672,756

Economic Adjustments

Autos & Transportation	-26.8%	(\$1,010,200)
Business & Industry	-19.9%	(\$380,800)
General Consumer Goods	-23.1%	(\$329,100)
Fuel & Service Stations	-27.8%	(\$355,800)
Restaurants and Hotels	-27.1%	(\$301,400)
Building and Construction	-22.2%	(285,300)
Foods & Drugs	15.5%	\$13,800

Total Adjustments **(\$2,648,800)**

State New 12-Month Deferral Program* (\$885,124)

Revised Budget Estimate for FY 2019-2020 **\$21,138,838**

**Governor Newsom announced on April 2, 2020 the launch of the sales tax "layaway" program where businesses will be able to "layaway" up to \$50,000 of sales tax liability for 120months*

The Executive Order 90-Day Sales Tax Payment Extension and CDTFA Small Business Relief Payment Plans actions will contribute to a significant sales tax revenue decrease:

FY 2019-2020	FY 2020-2021	FY 2021-2022
\$21,138,830	\$23,203,365	\$26,796,284

Other Sources of Revenue

The swift reaction by consumers and businesses to the outbreak of coronavirus (Covid-19) has triggered a significant decrease in other sources of revenues. The national and state response, combined with the uncertainty of how long the presence of the virus will disrupt the U.S. economy, has made revenue forecasting particularly challenging. This forecast below is based on monitoring actuals and estimated percentage decreases after reviewing the impacts of previous downturns.

Revenue Source	FY 2019-2020 Adopted Budget	Estimated (%) Decrease	Estimated (\$) Decrease	Revised Budget
Franchise Tax	\$9,948,750	-10%	(\$994,875)	\$8,953,875
Transient Occupancy Tax	\$2,150,000	-35%	(\$752,500)	\$1,397,500
Real Property Transfer Tax	\$320,000	-7%	(\$22,400)	\$297,600
Oil Industry Business Tax	\$4,700,000	-5%	(\$235,000)	\$4,465,000
Licenses and Permits	\$9,500,000	-25%	(\$2,375,000)	\$7,125,000
Total	\$26,618,750		(\$4,379,775)	\$22,238,975

The revenue will be lower than originally projected by 16.5% (or \$4.4 million). The Fiscal

Year 2020-2021 shows a decrease of 10% compared to this year's adopted budget.

Revenue Source	FY 2019-2020	FY 2020-2021
Franchise Tax	\$9,948,750	\$9,053,875
Transient Occupancy Tax	\$2,150,000	\$1,935,000
Real Property Transfer Tax	\$320,000	\$288,000
Oil Industry Business Tax	\$4,700,000	\$4,230,000
Licenses and Permits	\$9,500,000	\$8,550,000
Total	\$26,618,750	\$24,056,875

Property Tax -\$15,274,891 adopted Fiscal Year 19-20 revenue

The assessed values and tax bills for the current Fiscal Year 2019-2020 are out and will, for the most part, be paid within the next month. If this crisis continues through the summer as expected, staff expects that revenues for 2020-21 may be reduced due to some level of delinquency and Assessor value reductions to reflect market values. The potential for such reductions will only become evident as time passes. Because the nature of this health crisis is far different from the circumstances 10 years ago, it is hoped that the impact of this crisis will not be as deep or as long lasting as the last recession. The impacts, large or small, of this crisis on assessed values will start to be seen in calendar year 2020 and would be reflected in the 2021-22 Fiscal Year.

	FY 2020-2021	FY 2021-2022	FY 2022-2023
Revenue from Taxable Value	\$6,759,821	\$6,765,371	\$6,941,728
Vehicle License Fee Adjustment Amount	\$8,716,012	\$8,989,695	\$9,253,715
Total	\$15,475,833	\$15,755,066	\$16,195,443

Community Services Department: Estimated Revenue Loss

On Tuesday March 17th, the City Council declared a local emergency pursuant to Resolution No. 20-053. The City Council directed staff to refund all park fees and other City fees for cancelled activities and events at the City Facilities. The table below shows the estimated revenue loss by category:

Division	Estimated Revenue Loss
Community Center	
Rentals*	\$216,441
% Catering Sales	\$108,792
Transportation	
Carson Circuit (local bus service)	\$19,083
Human Services	

Senior Recreation	\$4,800
Early Childhood	\$157,032
Excursions	\$3,000
Therapeutics	\$9,800
Special Interest	\$3,450
Recreation	
Adult Sports	\$45,920
Aquatics	\$97,021
Boxing Center	\$6,515
Enrichment	\$937
Kids Club	\$242,172
Park Reservations*	\$62,084
Veterans SC	\$1,492
Youth Sports	\$57,120
Total	\$724,408

**Based on cancelled reservation/permits from March - June 2020*

Similar impact is expected for Fiscal Year 2020-2021 Community Services revenues that will range between \$350,000 (Jul-Aug-Sept) to \$1.2 (Jul-Dec) million depending upon the duration of Stay-At-Home orders.

V. FISCAL IMPACT

Like most cities in the United States, the City's projected deficit is expected to increase exponentially as a result of the loss of revenue during the pandemic. The various elements of the City's draft Fiscal Year 2020-2021 General Fund budget that are summarized above will continue to be updated throughout the budget process.

We propose closing that deficit with one-time funds in the amount of \$3.3 million from the City's reserves, which at this point in time is \$39 million.

While so much of this financial instability is outside of the City's control, there may be opportunities to make further adjustments as we learn more. We will be monitoring the budget on an ongoing basis and update the City Council quarterly (if not more frequently) throughout the upcoming fiscal year.

VI. EXHIBITS

1. Vacant Positions by Department
2. Human Resources & Risk Management Budget Issue Paper
3. Special Events Fiscal Year 2020-2021 Budget

4. Fiscal Year 2020-2021 Capital Improvement Plan
5. Information Technology FY 20-21 Budget Issue Paper
6. City Clerk's Office FY 20-21 Budget Issue Paper

1.

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