



Legislation Text

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Report to Mayor and City Council

Tuesday, April 21, 2020

Discussion

SUBJECT:

FISCAL YEAR 2020-2021 BIENNIAL BUDGET WORKSHOP #2 (CITY COUNCIL)

I. SUMMARY

This is the 2nd of 3 planned budget workshops before considering adoption of the Fiscal Year 2020-2021 budget in June 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 receive direction from City Council on the proposals that would change the current budget structure.

II. RECOMMENDATION

PROVIDE direction to continue to build the draft budget.

III. ALTERNATIVES

TAKE another action deemed appropriate by City Council.

IV. BACKGROUND

On February 17th, Finance staff presented to the City Council the mid-year 2019-2020 budget outlook by assessing the early economic indicators for the U.S. and California as it became clear that the momentum from Fiscal Year 2019-2020 was pushing into 2020-2021.

We thought the forecast for Fiscal Year 2020-2021 would be another year similar to 2019-2020 when employment reached record highs, unemployment fell to record lows, trade was improving, manufacturing output was growing, and general economic sentiment by Americans was near historic levels of optimism.

On March 13, a National Emergency was declared by the Trump Administration. By March

15, the Governor of California, Gavin Newsom, ordered shelter-in-place for the Bay Area, and 4 days later, for the remainder of the state. On March 17, the City Council declared a state of Local emergency in response to COVID-19 pandemic by adopting Resolution no. 20-053. The emergency resolution mandated the closure of all City facilities and the cancellation of special events. Subsequently, as a result of the National, State and City emergency directives, all events, classes and programs at our City facilities were cancelled. All non-essential businesses were ordered closed. Essential businesses such as grocery stores and stores selling critical products have been allowed to remain open, with some restrictions.

The Coronavirus Pandemic Economic Shutdown

The amount of economic activity that has been concurrently shut down is both shocking and unprecedented.

- Other than take-out, all restaurants and bars
- All recreation and personal care: Gyms and salons
- Retail stores except for groceries, household necessities and drugstores
- The NBA Season suspended
- The Major League Baseball Season postponed
- March Madness cancelled
- All schools closed
- All high school sporting events suspended
- Colleges and Universities closed, offering online classes only
- All amusements closed, Disneyland, Universal Studios, Magic Mountain, etc.
- All movie and live performing theatres closed
- State Parks, campgrounds, and state beaches closed
- Concerts cancelled
- Conventions cancelled
- Conferences cancelled or postponed
- Non-essential government offices closed
- All flights from Europe and China banned and other areas as needed
- Shelter-in-place ordered in most states; 250 million people (76%) nationwide at home
- The 2020 summer Olympics postponed for a year

These activities will result in a massive loss of revenue, due to the lack of expenditure and subsequent earnings by workers. All jobs associated with these activities are idled. The vulnerable sectors of the economy in which the most jobs are at risk include recreation, leisure, and hospitality including food services, retail trade, manufacturing, and administrative business support.

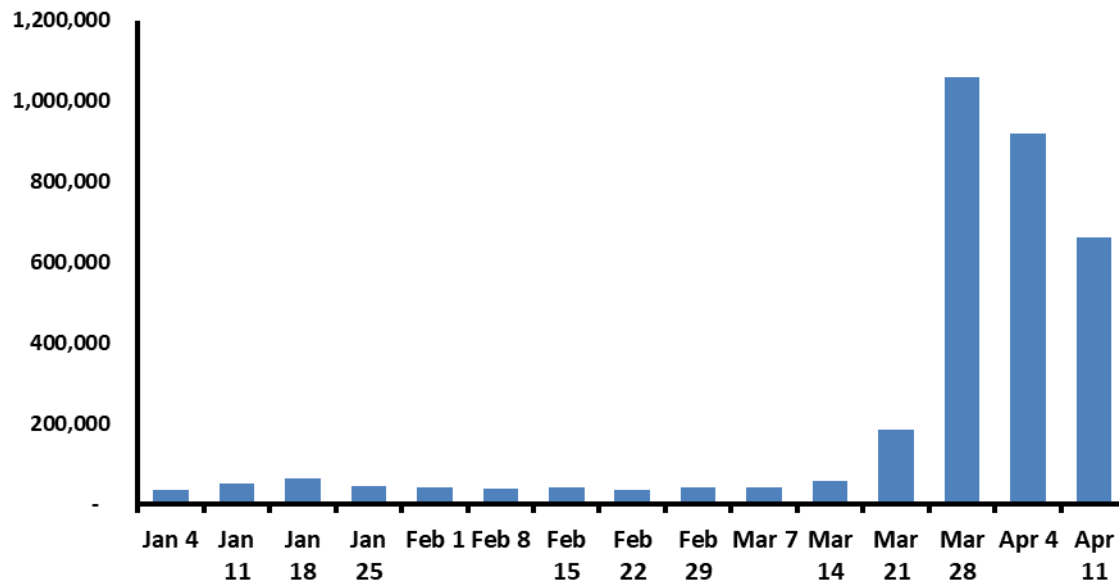
The Outlook of California and Los Angeles County's Economy

The unemployment rate surged and is now higher than during the Great Recession of 2008

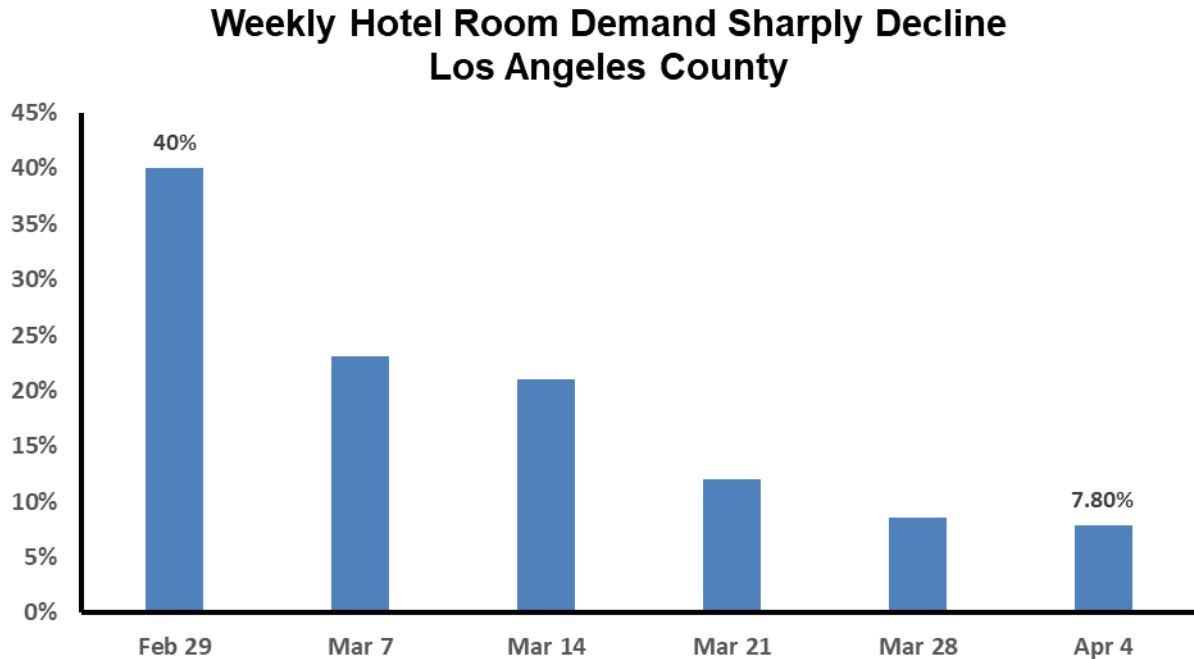
-2009. Five million jobs in California are at risk of being lost. Many of these jobs will remain on company payrolls and/or workers will be furloughed without pay, but an unknown number will be terminated.

The deterioration of the labor market has been much deeper than expected, and the effective unemployment rate is now 14.8 percent nationwide. There were 1 million filings for initial unemployment claims last week, shattering any previous record by an almost inconceivable amount.

Initial Claims For Unemployment Insurance - California



So far, over 22 million workers have filed for unemployment benefits nationwide. This is easily the worst stretch of U.S. job losses on record. All told, nearly 12 million people are now receiving unemployment checks, roughly matching the peak reached in January 2010, shortly after the Great Recession officially ended.



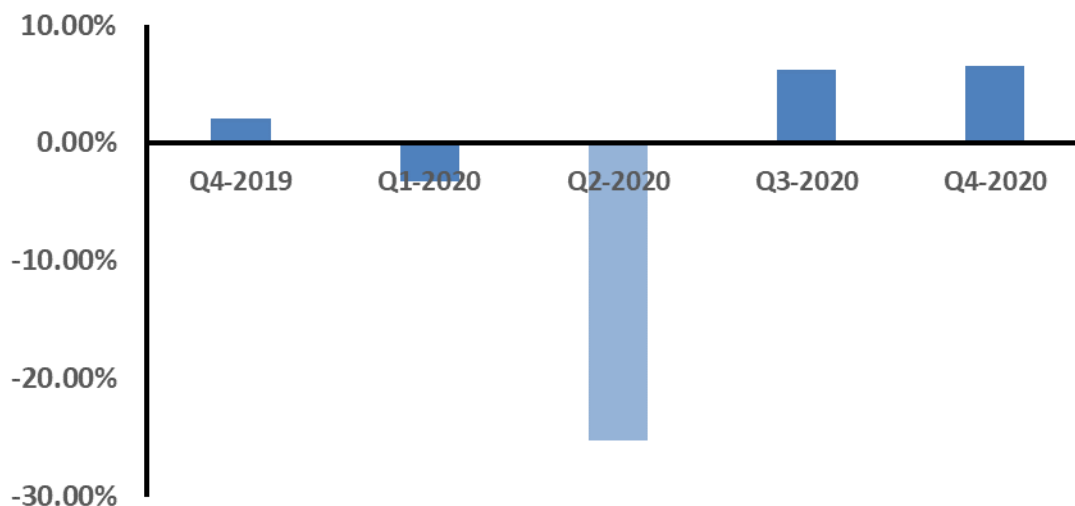
Occupancy in local hotels has gone from about 80 percent to about 20 percent. The above chart shows the weekly hotel room demand sharply declining.

The Outlook of the National Economy

The coronavirus pandemic will cause a severe economic contraction, Economists predict gross domestic product will contract at an annual rate of 25% in the second quarter. That is a sharp downgrade from the March Wall Street Journal survey of economists, when they

expected GDP to shrink just 0.1% from April to June.

U.S. Quarterly GDP Forecast



The City's Financial Outlook: Revenues

Finance staff is assuming disruption to the City's revenue forecast through the second quarter of Fiscal Year 2020-2021 at a minimum, with a revised Fiscal Year 2019-2020 year-end deficit increasing from \$3.4 million to \$12.5 million.

The City's revenues and expenditures forecast will continue to change because information underlying the principal forecasting assumptions seems to be changing rapidly, largely due to the policy response by the Federal and State government. Critical to the forecast is the length of time economic activity remains shut down in California and the rest of the nation.

Finance staff's assumptions reflect the following scenarios:

The Optimistic Scenario

4Q FY 19-20 -12.5% | 1Q FY 20-21 -10%

California and the nation remain in shelter-in-place mode through the month of April. This will result in an estimated \$12.5 million General Fund deficit for Fiscal Year 2019-2020. Activity begins to return during the month of May. Events and travel begin to ramp up in June. This means that by the second quarter of Fiscal Year 2020-2021 (October through December), the economy rallies sharply as supply chains are more fully restored and events and travel occur near normal. There will be persistence however, in that a number of businesses will not return to operation and workers will remain unemployed as a result. Consequently, the unemployment rate remains elevated for much of 2020.

The pessimistic Scenario

4Q FY 19-20 -12.5% | 1Q FY 20-21 -25%

This is the result of a lengthier period of economic stagnation in which businesses can't operate, people can't go out, and travel and events don't occur. Businesses can't hold on and they fail. Supply chains move to alternative uses where revenue can be generated. Workers find alternative employment opportunities and don't return to their previous jobs. All of these unintended outcomes lead to a lengthier economic recovery that further

reduces the City's revenues to a potential 25% decrease (over \$15 million budget deficit) for Fiscal year 2020-2021.

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 emerging COVID-19 pandemic crisis. 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 120 months

Executive Order 90-Day Sales Tax Payment Extension:

On March 30, Governor Newsom signed an Executive Order (Exhibit 1) allowing the California Department of Tax and Fee Administration (CDTFA) to offer a 90-day extension for sales, use and transactions tax returns and tax payments for all businesses filing a return for less than \$1 million in tax liability. This order automatically enrolls qualified businesses allowing them until the end of July to file their first-quarter returns. Deferrals for taxpayers with tax liabilities above the \$1 million threshold that are undergoing hardship due to the COVID-19 outbreak will be considered on a case by case basis. The order also extends the statute of limitations to file a claim for refund by 60 days to accommodate tax and fee payers.

CDTFA Small Business Relief Payment Plans:

In addition to the 90-Day Sales Tax Extension Plan, small business taxpayers will be able to enter into a 12-month, interest-free, Installment Plan Agreement (IPA) for up to \$50,000 of sales and use tax liability. Small businesses defined under this order are businesses with less than \$5 million in taxable annual sales. This means that a small business that would typically remit sales tax in April can enter into an IPA to spread its 1st Quarter 2020 liability over a twelve-month period. A business that takes advantage of this program will owe its first payment on August 31, 2020 and combine it with the three-month (90-day) extension, as described above. All payments made under this plan will be 1/12 of their liability.

Taxpayers that do not exceed the \$50,000 cap with their 1st Quarter 2020 liability can add future sales tax liabilities up to the \$50,000 cap, by amending their IPA. However, the payoff terms will not extend beyond July 31, 2021. No additional interest relief will be given past this date for the impacted periods.

These state 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) will cause 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 decrease 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
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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

Forecasting Transient Occupancy tax is going to be difficult in the short-term. Obviously, the City should expect a dramatic decrease in revenue from hotels. In these difficult times, as society battles COVID-19, the hospitality industry is affected as much or more than any other industry. Jurisdictions across California and Nevada, have had several requests from hotels wanting TOT deferment, or suspension of penalties and interest (P&I). Although there have been several requests across the jurisdictions we administer, the vast majority of hotels filed and paid TOT for the February period as normal, without requesting deferment. The major issue with the hotels requesting deferment, is primarily a problem with liquidity and lack of disaster planning on part of these hotels.

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. Finance staff sees no reason to expect that property tax revenues for this fiscal year will be impacted to any significant degree. The most we might anticipate would be a minor reduction in supplemental revenues if transfers of ownership or new construction is reduced between now and August. The mid-year property tax budget review on February 2020 should still be valid.

If this crisis continues through the summer, Finance 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 crisis is far different from the circumstances 10 years ago, it is not likely that the impact of this crisis will 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 (Exhibit 2).

	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
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Since 1990 there have been three recessions. While the reasons given for their causes were different, there were similar impacts on real estate values and the related property taxes. Finance staff are providing a summary of these recessions and their dates so you can see the delay and impact on the property values in the City.

- **The Gulf War Recession** between July 1990 and March 1991 (8 months) was the result of Iraq invading Kuwait, which resulted in a spike in the price of oil in 1990, which then caused manufacturing trade sales to decline. This was combined with the impact of manufacturing moving offshore as the provisions of the North American Free Trade Agreement (NAFTA) kicked in. In addition, the leveraged buyout <https://www.investopedia.com/terms/l/leveragedbuyout.asp> of United Airlines triggered a stock market crash. GDP decline: 1.5%
- **The 9/11 Recession** between March 2001 and November 2001 (8 months) was caused by the collapse of the dotcom bubble, the 9/11 attacks, and a series of accounting scandals at major U.S. corporations. This resulted in a relatively mild contraction of the U.S. economy. Within a few months after the impacts of this recession were felt, GDP recovered to its former level. GDP decline: 0.3%.
- **The Great Recession** between December 2007 and September 2009 (18 months). The subprime mortgage crisis led to the collapse of the United States housing bubble. Falling housing-related assets contributed to a global financial crisis, even as oil and food prices soared. The crisis led to the failure or collapse of many of the United States' largest financial institutions as well as a crisis in the automobile industry. The government responded with an unprecedented \$700 billion bank bailout and \$787 billion fiscal stimulus package. The National Bureau of Economic Research declared the end of this recession over a year after the end date. The GDP declined 4.3%.

Community Services Department: Estimated Revenue Loss

On Tuesday March 17th, the City was notified that a Carson resident tested positive for the Coronavirus. On that same day, the City Council declared 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 on the duration of Stay At Home orders.

The City's Financial Outlook: Expenditures

Short-Term vs. Long-Term Hiring Freeze

To help reduce the General Fund budget deficit, a short-term or long-term hiring freeze that lasts a few months or simply extends the time a position is vacant will provide the City with immediate financial relief. The total vacant positions stand at 38 positions with an estimated cost/savings of \$1,510,000 for the next 4 months. The Net General Fund savings from the hiring freeze for Fiscal Year 2020-2021 is \$3.4 million. A longer hiring freeze would require more careful analysis, including deciding what departments and functions are affected, calculating how overtime costs will be affected, and identifying potential risks to critical services.

Department Name	Budgeted FTEs	Vacant FTEs	Vacancy Rate
Public Works	130	13	10%
Community Services	66	9	14%
Community Development	23	5	22%
Human Resources	11	3	27%
Public Safety	23	3	13%
Finance	32	2	6%
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	0	0%
Public Information Office	4	0	0%
TOTAL	316	38	12%

City Employees with Stay-At-Home Social Distancing Directives

On March 19, our Mayor and City Council directed City Executives to ensure that we take care of our employees to the fullest extent possible. 640 employees were sent home to provide them with a level of comfort during this unpredictable declared emergency.

Active Payroll Headcount	
Full-Time	282
Part-Time	558
Total	840

The distribution of the 840 employees is as follow:

Bargaining Groups*	
AFSCME 809 FT	188
AFSCME 809 PT	167
AFSCME 1017	14
CPSA	51
AME	14
Unrepresented PT	383
Deputies	2
Elected Officials	7
UME	6
Temporary Part-Time	8
Total	840

**10 employees that have been separated
since the last report*

For the staff who were not required to report to work as of April 9, they have received 100%

of their wages and benefits from a combination as shown in the table below by department:

DEPARTMENT	Total	Year-End Estimate*
COMMUNITY SERVICES	\$282,808	\$1,414,038
PUBLIC WORKS	\$98,299	\$491,493
FINANCE	\$40,616	\$203,080
COMMUNITY DEVELOPMENT	\$35,720	\$178,598
CITY MANAGER OFFICE	\$33,667	\$168,335
CITY TREASURER	\$7,959	\$39,796
HR & RISK MANAGEMENT	\$3,816	\$19,082
CITY CLERK	\$3,200	\$16,002
CITY COUNCIL	\$396	\$1,980
Total	\$506,481	\$2,532,404

*the total for the last 5 pay-periods remaining for FY 2019-2020

As of the time this report was compiled, 194 (or 30%) out of the 640 employees sent home had applied for California Unemployment Insurance. Those who don't apply are able to draw down their accruals while they last. 173 (or 89%) of those who applied will qualify for more benefits under the state and federal program that will exceed their City's biweekly salary (the number is expected to be higher).

Department	Position type	
CITY MANAGERS	FULL-TIME	2
	PART-TIME	3
COMM. DEVELOP	FULL-TIME	2
	PART-TIME	1
COMM. SERVICES	FULL-TIME	10
	PART-TIME	143
FINANCE	FULL-TIME	1
	PART-TIME	4
PUBLIC WORKS	FULL-TIME	2

	PART-TIME	5
Grand Total		173

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 didn't involve travel. That is the type of training we would want to continue.

DEPARTMENT	Budget
HR & RISK MANAGEMENT	\$151,500
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

A Reduction Matrix to Departments' Operating Budget

The following table shows a range of 5%, 10% or 15% reduction target to department's non-personnel budget:

		FY 2020-2021 Proposed Budget		
Department	FY 2019-2020 Budget	5% reduction	10% reduction	15% Reduction
COMMUNITY SERVICES	2,591,507	2,461	2,345	2,239

PUBLIC WORKS	5,026,777	4,775	4,549	4,344
FINANCE	662,395	629	599	572
COMMUNITY DEVELOPMENT	7,131,688	6,775	6,454	6,163
CITY MANAGER OFFICE	190,080	180	172	164
INFORMATION TECHNOLOGY	1,299,043	1,234	1,175	1,122
PUBLIC INFORMATION	251,415	238	227	217,2
PUBLIC SAFETY	22,051,595	20,949	19,956	19,058
CITY TREASURER	139,950	132	126	120
HR & RISK MANAGEMENT	1,447,552	1,375	1,310	1,251
CITY CLERK	158,100	150	143	136
Total	40,950,102	38,902,597	37,059,842	35,391,125
GF Reduction Amount		2,047,505	3,890,260	5,558,976

City Special Events

Limiting the spread of the COVID-19 virus has necessitated cancelling of all public gatherings. The City has acted responsibly by cancelling its Special Events through August 2020. Additional cancellations may be warranted, even after the initial pandemic has subsided, to prevent a second round of the spread of the virus. Direct costs for events for Fiscal Year 2020-2021 is estimated to be \$290,000 (Exhibit 3).

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. While a great deal of that is outside of the City's control, the City will need to make tough decisions to bring down its expenses. Without knowing how long the stay at home requirements and its resultant impact on the economy will last, the City will need to be prepared with different budget scenarios to address the range of conceivable optimistic and pessimistic outcomes.

VI. EXHIBITS

Exhibit 1 Governor Newsom signed an Executive Order

Exhibit 2 Property tax revenue

Exhibit 3 Special events

Prepared by: Tarik Rahmani