



CITY COUNCIL AGENDA REPORT



DEPARTMENT: Administrative Services

MEETING DATE: May 19, 2020

PREPARED BY: Buffy J. Bullis, Director

AGENDA LOCATION: AR-3

TITLE: Fiscal Year 2019-2020 Operating Budget Update, Resolution No. 2020-38

OBJECTIVE: To provide City Council with a Fiscal Year 2019-2020 Operating Budget update and authorize the budget action recommendations presented

BACKGROUND: In June 2019, the City Council adopted the Fiscal Year 2019-20 Budget, which appropriated funds and approved revenue projections for the fiscal year. Additionally, on March 17, 2020, the City Council approved the Fiscal Year 2019-20 Mid-Year Budget adjustments based on updated financial information available at the time. During the City Council meeting, it was discussed that there would, undoubtedly, be financial impacts from the Novel Coronavirus (COVID-19) pandemic. However, at the time, it was too early to determine the extent and magnitude of the financial impacts.

On March 19, Governor Newsom issued a Stay At Home Order and LA County followed suit with a similar Safer At Home Order that same day which, in essence, suspended non-essential business through April 19. On April 10, LA County's Safer At Home Order was extended through May 15, and on May 13, the Order was extended again, but with revisions that allowed some lower-risk retail businesses to reopen for curbside pickup and delivery. While the Safer At Home Order has had a positive health impact on flattening the curve and slowing the spread of the virus, it has unfortunately had a negative economic impact on our residents, businesses, and, ultimately, the City of Monrovia.

ANALYSIS: Since City Council's approval of the Mid-Year budget on March 17, staff has been closely monitoring and assessing the financial impacts to the City's revenues resulting from COVID-19 and the Safer At Home Order. Based on those projected impacts, Council has directed staff to develop a budget strategy that endeavors to make thoughtful and appropriate adjustments to the City's expenditures that will help offset decreases in revenue. This report provides the City Council with a status update on the Fiscal Year 2019-20 Operating Budget and proposes several inter-fund budget adjustments to Transfers between funds.

It should be noted that, due to these unprecedented times, there is no previous financial model to use as a guide to project the exact impact on the City's revenues. To that end, staff frequently updates assumptions and projections, based on daily information, while utilizing the City's property and sales tax consultants to assist with revenue projections. Because it remains difficult to project accurate revenue estimates, the City expects revenue forecasts to change frequently over the next six months. For example, in early April, the City projected a \$2.6m decrease in General Fund revenues and used this forecast as a guide to decision-making. Today, in mid-May, the City has more data and is constantly monitoring changes, so we are revising our revenue estimate to reflect a \$2.0m decrease in revenues. These forecasts will continue to change; however, the City is committed to remaining flexible and managing our financial resources responsibly at a time of such uncertainty.

AR-3

Below is a summary overview of the City's current financial condition for FY 2019-20 based on latest assumptions.

General Fund

Based on updated year-end projections, it is projected that the General Fund will end the fiscal year with a deficit of approximately \$556,000 which is attributed to significantly decreased revenues which will be explained below. The projected deficit does not take into account Measure K revenues. When combining the projected deficit of \$556,000 with Measure K revenues of \$800,000, it is projected that the General Fund will end the year with an overall surplus of approximately \$244,000.

FY 2019-20 General Fund Revenues

Cities are unique in many ways, including how they receive revenues to fund essential operations. At the City of Monrovia, key General Fund revenues include property tax, sales tax, transient occupancy tax (TOT) and "other" revenues. Below is a discussion of the potential financial impacts to each of these revenue sources.

- **Property Tax Revenue** – In determining the potential impacts to the City's property tax revenue for Fiscal Year 2019-20, staff consulted with HDL, the City's independent advisor and consult on revenue finance. Based on their review, it is expected that COVID-19 will have minimal impact on property tax revenues in FY 2019-20. Although there may be an increase in delinquencies due to the waiving of late payment penalties, we are only anticipating a 1% delinquency factor in our calculations, as we do not expect a significant impact from delinquencies. To that end, we are anticipating a decline of approximately \$77,957 in General Fund property tax revenues for the year.
- **Sales Tax Revenue** – The City's most impacted revenue source in the General Fund is the Bradley Burns Sales Tax of 1%, commonly called sales tax. Sales tax is expected to be short by approximately \$1.4 million for FY 2019-20. Since many businesses considered to be non-essential have been closed since March 19, there will be significant impacts to our overall sales tax revenues. On a positive note, car dealerships were allowed to reopen last week as part of LA County's Phase 2 openings. This will be very impactful for our City, as the autos and transportation category makes up approximately 35% of our sales tax revenue base. Additionally, on another positive note, the City is expecting an increase in its State and County pool allocations. The pool allocations have been growing over the last several years, as online sales from retailers, such as Amazon, have grown year-over-year. The pool allocations comprise approximately 13% of the City's total sales tax revenues, and it is expected that the pool will grow by approximately 10-15% during the Safer At Home Order, due to an increase in online sales during this time.

Due to COVID-19, there are some deferral provisions for small businesses with regards to sales tax. On March 30, Governor Newsom issued Executive Order #N-40-20, which allowed a 90-day extension of sales and use tax returns (for businesses with less than \$1 million of annual tax liability) in order to provide temporary financial relief to businesses. Additionally, the California Department of Tax and Fee Administration (CDTFA) is allowing small business taxpayers to enter into a 12-month loan to repay up to \$50,000 of sales and use tax liabilities. Payments under this plan must be repaid by July 21, 2021. Based on HDL's estimates, it is anticipated that the deferment of payments under these two programs could be up to \$753,000. However, because these deferments are required to be paid back within 12 months, the impact to City revenues is projected to be minimal and should only shift the timing of collection within the year.

- **Measure K Revenue** – As with the Bradley Burns sales tax, Measure K revenues are also expected to be impacted by COVID-19. Revenues are projected to be approximately \$800,000, which is \$350,000 less than our original projections of \$1,150,000. Because Measure K revenues have not yet been appropriated for use, there is no impact to operations from this adjustment, as revenues will be set aside for future use.

- Transient Occupancy Tax (TOT) Revenue – Following sales tax, the City’s TOT revenue is the second most impacted revenue in the General Fund as a result of COVID-19. City staff recently reached out to each hotel operator to understand the impacts of the Stay At Home Order on their revenues. Based on that contact, hotel occupancy rates have essentially gone from 80-90% occupancy, which is the norm for Monrovia, to 10-15% occupancy. To that end, staff performed a detailed analysis of each hotel’s potential collections and assumed that occupancy levels will remain the same through the end of the fiscal year. Based on these assumptions, it is expected that TOT revenues for FY 2019-20 will fall \$575,777 short of the budgeted \$2,253,257.
- Other Revenues – Staff also performed a review and assessment of all other General Fund revenues to identify the impacts of COVID-19 on those revenues. While there are expected reductions in many of our revenues, including program fee revenue, which is expected to be \$173,000 less than budget, we are also anticipating increases in several revenues. One of the most notable of these increases is in our AB1290 revenue, which we receive as part of the dissolution of redevelopment. In short, this is a property tax-based revenue that comes to the City instead of the former redevelopment agency. Staff is projecting an increase of \$456,000 during FY 2019-20. Additionally, we are also expecting a one-time increase of \$120,000 in developer revenues. When combined with decreases in program revenues, the total net adjustment to Other Revenues is still an increase of \$49,104.

Below is a summary of the projected General Fund revenues:

**FY 2019-20 General Fund Revenues
Budget vs. Estimated Actuals**

GF Revenue Item	FY 2019-20 Budget	FY 2019-20 Estimated Actual	Difference
Property Tax	\$13,233,121	\$13,155,164	(\$77,957)
Sales Tax	\$10,924,446	\$9,470,700	(\$1,453,746)
Transient Occupancy Tax	\$2,253,257	\$1,677,480	(\$575,777)
All Other Revenues (Excludes Transfers In)	<u>\$6,671,463</u>	<u>\$6,720,567</u>	<u>\$49,104</u>
Total	<u>\$33,082,287</u>	<u>\$31,023,911</u>	<u>(\$2,058,376)</u>

When factoring all of these revenue adjustments, the City’s overall General Fund estimated year-end revenues are expected to be \$2,058,376 less than budget. To address this shortfall, staff has been working diligently over the last month developing and implementing a thoughtful and deliberate plan to reduce expenditures as speedily as revenues were reduced, closing the budget gap. To that end, a series of different savings strategies will be implemented as noted below.

FY 2019-20 General Fund Expenditures Savings Items

- Savings in Operational Budgets – Each operating department staff reviewed their budgets and open purchase orders and identified critical and non-critical items needed through the end of the fiscal year. Non-mandatory or non-critical purchases have been suspended which will provide savings to the General Fund. Additionally, some savings will be realized from the closure of City

facilities and the cancellation of programs due to the Safer At Home Order. This results in a total estimated savings of approximately \$442,000

- Vacancy and Other Personnel Savings – Staff reviewed personnel costs for savings opportunities. By keeping vacant positions through the end of the fiscal year and by making additional adjustments to overtime and part time costs that are expected to come in under budget for the remainder of the year, the General Fund will achieve additional savings totaling \$514,000. The city manager and department directors have voluntarily forfeited leave time, and mid-managers are considering a similar forfeiture whereby details have not been finalized at this time, which will result in additional savings of approximately \$101,000 in the General Fund. The savings across all funds for this forfeiture is estimated to be \$133,000.
- Adjustments to Transfers In/Transfers Out –A review of our transfers between funds was performed to identify additional opportunities for savings. Because of a reduction of costs and overall needs in the Housing Fund, Central Services Fund, Library Fund, and Asset Forfeiture Fund, the corresponding transfers needed from the General Fund has been reduced. Additionally, a cleanup of salary allocations will appropriately shift some salary costs to the Hazmat Fund, providing relief of \$62,308 to the General Fund. To that end, staff is proposing a budget adjustment to the Transfers In and Transfers Out. The reduction in Transfers Out from the General Fund totals \$38,890 and the increase in Transfers In totals \$181,654. In total, this results in a \$220,544 positive impact to the General Fund. The adjustments to Transfers In/Transfers Out is attached as Exhibit A to Resolution 2020-38.

When factoring in all of the proposed updates, the total reduction in estimated General Fund expenditures and transfer adjustments is \$1,277,000

FY 2019-20 General Fund Ending Financial Position

As City Council will recall, at Mid-Year, the General Fund was projected to end the year with a positive fund balance of \$225K. Given the magnitude of the financial impacts of COVID-19 on our revenues as noted above, and taking into account the savings items that staff is proposing above, it is expected that the General Fund will now close the year with a deficit of approximately \$556,000. Because we are already more than three quarters of the way through the fiscal year, there are limitations in the ability to make additional significant adjustments. As such, staff is recommending the following proposals to address the estimated budget gap of \$556,000 for FY 2019-20:

- Utilize General Fund reserves to close the gap for this fiscal year, directing staff to develop a plan as part of the FY 2020-21 budget to replenish reserves.
- Utilize Measure K revenues to close the gap for this fiscal year, directing staff to develop a plan as part of the FY 2020-21 budget to replenish Measure K revenues.
- Provide staff with alternative direction or options.

Given reserves are intended to be a cushion to use in the event of an unforeseen emergency, this would be an appropriate time to utilize reserves. Therefore, staff is proposing a one-time use of reserves to balance the FY 2019-20 deficit, with the requirement to develop a repayment plan during the FY 2020-21 Budget process.

FY 2019-20 Non-General Fund Impacts

In addition to the General Fund, staff is monitoring all remaining funds to determine revenue impacts resulting from COVID-19. Staff is anticipating impacts to revenues in several of the City's other funds, especially in funds that include sales tax-based revenues. A discussion of those impacts is provided below.

Sales Tax Revenue Impacts:

There are several City transportation funds supported by sales tax revenues including the Proposition A Fund, the Proposition C Fund, the Measure R Fund, and the Measure M Fund. These funds are impacted by a decline in sales tax revenues in FY 2019-20. Based on staff's initial assessment given by HdL, we are projecting a 13% decrease from the original budgeted revenues which is the same percentage decrease in General Fund sales tax revenues. Interestingly, the impact of these revenue decreases will be offset by similar decreases in GoMonrovia ridership costs, as COVID-19 has reduced overall program ridership. Given these impacts, we expect these four transportation funds to end the fiscal year in a positive net position and surplus.

Property Tax Revenue Impacts:

As mentioned earlier, staff anticipates little impact to property tax revenues in Fiscal Year 2019-20. The City has five different funds supported by property tax revenues. These funds include the Retirement Fund, the Lighting and Landscape Assessment Fund, the Park Maintenance Assessment Fund, the Library Bond Fund, and the Hillside Wilderness Preserve Bond Fund. Staff is expecting only minimal impacts (1% decrease) in property tax revenues due to possible delinquencies. Overall, these decreases will have minimal impact on these funds.

Enterprise Fund Revenue Impacts:

The City's enterprise funds are expected to be minimally impacted. A slight decrease in revenues is anticipated due to delinquencies, waived penalties/fees, and disconnection/reconnection fees. Staff has been assessing impacts to our enterprise fund revenues on a regular basis, which include water, sewer, and other utility revenues. We are seeing a slight increase in delinquencies but in minimal amounts and not of concern. These funds are expected to end the year in a positive position.

Gas Tax Impacts:

Staff is projecting a decrease of approximately 20% in Gas Tax revenues, which equates to \$195,000. Gas Tax revenues are tied to fuel consumption; therefore, the reduction in miles travelled during the Safer At Home Order will, undoubtedly, result in a reduction in revenues. Staff will continue to closely monitor this revenue source, but at this time, it is expected that Gas Tax revenue impacts will be absorbed with minimal impact.

COVID-19 Expenses

The City is tracking and recording its costs related to COVID-19 and will be seeking reimbursement from FEMA. Reimbursable costs incurred to-date total approximately \$60,000 and are expected to be reimbursed at 75% by FEMA. The remaining 25% is expected to be covered by funds available in the Emergency Fund which currently has a fund balance of approximately \$14,000. Additionally, staff is seeking additional grant funding to assist with other costs that will provide relief to the General Fund in future years.

FY 20-21 Budget Update Timeline

Every year, the City prepares its fiscal budget during the spring and early summer with Council approval on or before June 30. As staff is deeply engaged in a unique budget development process, and considering the uncertainty brought to the City's finances, staff is proposing a modified Budget timeline as outlined below. These modifications allow staff to provide more accurate revenue projections and appropriate expenditure recommendations that will be used as a basis for the FY 2020-21 Budget. For example, sales tax information for our current quarter (April-June 2020) will not become available until August. By using the modified timeline, staff will be better prepared to assess the City's finances and can propose a meaningful, accurate and balanced budget. In the meantime, because the City Council has already approved a budget for FY 2020-21 in June 2019, it is proposed the City would continue to operate

utilizing this original budget for FY 2020-21 until the FY 2020-21 Budget Update is completed. With this in mind, below is the proposed timeline.

Proposed Dates
FY 2020-21 Budget Update

Proposed Date	Budget Process
July 21	FY 2020-21 Budget Study Session #1
August 4	FY 2020-21 Budget Study Session #2
August 18 <i>(if meeting is cancelled, September 1)</i>	Formal FY 2020-21 Budget Update Approval

FISCAL IMPACT: The updated estimates provided in this report are based on the latest information available at this time and include assumptions and forecasts which will change. As information is constantly evolving, staff monitors the financial impacts, consultants with our financial advisors and peer cities, and strategizes how to make sound financial decisions in response to of COVID-19 on a daily basis. The timing of the lifting of Safer At Home Order restrictions will also play a big part on the overall economic impact and recovery of the City’s finances. Staff will continue to monitor the City’s finances and return to City Council with an update when additional changes are warranted.

At this time, staff is asking Council for any guidance or direction before we finalize the fiscal year. Staff is also proposing minor budget adjustments to the Transfers In/Transfers Out between funds which will result in an ending General Fund deficit of \$556,000, for which staff is recommending one-time use of reserves. If one-time reserves are used, staff will prepare a plan for replenishment to present to City Council during the FY 2020-21 Budget Update.

ENVIRONMENTAL IMPACT: There is no environmental impact associated with approving the recommended budget adjustments.

OPTIONS: The following options are presented for consideration:

- 1) Adopt Resolution No. 2020-38 to approve the budget adjustment recommendations as presented.
- 2) Make additional adjustments to the information presented.
- 3) Seek clarification or further detail on specific items, and refer them to staff for additional analysis or research.

RECOMMENDATION: Staff recommends Option 1, thereby approving the recommended operating budget updates, as presented.

COUNCIL ACTION REQUIRED: If the City Council concurs, the appropriate action would be a motion to adopt Resolution No. 2020-38.

RESOLUTION NO. 2020-38

**A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF
MONROVIA, CALIFORNIA, ADOPTING FISCAL YEAR 2019-
2020 BUDGET ADJUSTMENTS**

THE CITY COUNCIL OF THE CITY OF MONROVIA DOES hereby resolve as follows:

WHEREAS, the City Manager and Administrative Services Director prepared and submitted to the City Council the 2019-2020 Proposed Program Budget for the fiscal year commencing July 1, 2019, and ending June 30, 2020; and

WHEREAS, the City Council reviewed the City Manager's Proposed Budget; and

WHEREAS, public meetings were held on the Proposed Budget, where all interested persons were heard; and

WHEREAS, thereafter, the City Manager and Administrative Services Director prepared and submitted to the City Council, on March 17, 2020, proposed adjustments to the 2019-2020 Program Budget; and

WHEREAS, the City Council has considered additional budget adjustments and determined it is necessary for the efficient management of the City that certain amendments, specifically amendments to the transfers in/out between certain funds, as set forth in the attached schedule of transfers in and transfers out, are necessary and will be appropriated from certain sums of revenues;

NOW, THEREFORE, THE CITY COUNCIL OF THE CITY OF MONROVIA DOES HEREBY FIND, DETERMINE, ORDER AND RESOLVE AS FOLLOWS:

SECTION 1. The budget for the City of Monrovia for the fiscal year July 1, 2019, through June 30, 2020, is hereby revised by adjusting budgeted transfers in and transfers out pursuant to the attached Exhibit A adjustment schedule.

SECTION 2. Said budget hereby adopted is the aforementioned Revised Budget prepared by the City Manager and Administrative Services Director, and as amended by the City Council, entitled "City of Monrovia, 2019-20 Operating Budget Adjustment – Transfers In/Out" incorporated herein by reference as though set forth in full. Said budget for transfers in and out is hereby adopted as the revised budget of the City of Monrovia for the 2019-2020 fiscal year, and shall remain in full force and effect until amended or modified by the City Council.

SECTION 3. The sums of money therein set forth are hereby appropriated from the revenues of the City to the departments, functions, and funds therein set forth for expenditure during the 2019-2020 fiscal year.

SECTION 4. The City Manager is hereby authorized and directed to arrange for the performance in accordance with the terms and provisions of law, of all specific projects enumerated in said budget, and the Mayor or his/her designee is directed to execute all necessary contracts to carry out the same.

SECTION 5. The City Manager is authorized to make transfers of budget appropriations between classifications and activities within a fund.

SECTION 6. The City Clerk shall certify to the adoption of this Resolution, and the same shall be effective May 19, 2020.

PASSED, APPROVED and ADOPTED this 19th day of May 2020.

Tom Adams, Mayor
City of Monrovia

ATTEST:

APPROVED AS TO FORM:

Alice D. Atkins, MMC, City Clerk
City of Monrovia

Craig A. Steele
City Attorney

City of Monrovia
2019-20 Operating Budget Adjustments - Transfers In/Out

TRANSFERS OUT

Fund Name	Dept Name	Dept #	Description	2019-20 Current Budget	2019-20 Revised Budget	Increase (Decrease)	Subtotal	Comment
GENERAL FUND	NON-DEPARTMENTAL	251	TRANSFER OUT			(18,890)	(38,890)	Reduce transfers out to the Housing Fund for MAP savings
GENERAL FUND	NON-DEPARTMENTAL	251	TRANSFER OUT	2,713,907	2,675,017	(10,000)		Reduce transfers out to the Library Fund based on updated needs
GENERAL FUND	NON-DEPARTMENTAL	251	TRANSFER OUT			(10,000)		Reduce transfers out to the Asset Forfeiture Fund based on updated needs
HAZMAT FUND	HAZMAT	431	TRANSFER OUT	38,160	100,468	62,308	181,654	Increase transfers out to the General Fund for reallocation of personnel
CENTRAL SERVICES	INFORMATION SYSTEMS	223	TRANSFER OUT	18,519	124,127	105,608		Increase transfers out to the General Fund for IT savings
CENTRAL SERVICES	TELEPHONE MAINTENANCE	224	TRANSFER OUT	41,065	54,803	13,738		Increase transfers out to the General Fund for telephone I/S savings
GRAND TOTAL				2,811,651	2,954,415	142,764	142,764	

TRANSFERS IN

Fund Name	Dept Name	Dept #	Description	2019-20 Current Budget	2019-20 Revised Budget	Increase (Decrease)	Subtotal	Comment
HOUSING FUND	MRA-SET ASIDE	556	TRANSFER IN	119,552	100,662	(18,890)	(18,890)	Reduce transfers in from the General Fund from MAP savings
PUBLIC LIBRARY FUND	LIBRARY GRANTS	641	TRANSFER IN	11,069	1,069	(10,000)	(10,000)	Reduce transfers in from the General Fund based on updated needs
ASSET FORFEITURE	ASSET FORFEITURE	341	TRANSFER IN	202,036	192,036	(10,000)	(10,000)	Reduce transfers in from the General Fund based on updated needs
GENERAL FUND	NON-DEPARTMENTAL	251	TRANSFER IN			119,346	181,654	Increase transfers in from savings in the Central Services Fund
GENERAL FUND	NON-DEPARTMENTAL	251	TRANSFER IN	2,148,000	2,329,654	62,308		Increase transfers in from the Hazmat Fund for reallocation of personnel
GRAND TOTAL				2,480,657	2,623,421	142,764	142,764	