



# FY 2019-20 Budget Update

May 19, 2020



# Presentation Overview

- Review of COVID-19 Timeline
- Economic Overview/Financial Impacts of COVID-19
- FY 2019-20 Projections and Response
- FY 2020-21 Budget Discussion
- FY 2020-21 Budget Timeline
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# Review of COVID-19 Timeline

- January 3 – WHO declared a global pandemic
- February 29 – First US death in Seattle, WA., announced
- March 13 – President Trump declared a National Emergency and the City of Monrovia declared a Local Emergency
- March 19 – California and LA County issued stay at home orders
  - Only businesses and activities deemed “Essential” could continue operations
- May 19 (Today)– Safer At Home Order is still in effect for LA County
  - Some restrictions lifted for low-risk business

# Economic Overview/Financial Impacts of COVID-19

## Before COVID-19:

- Longest period of economic expansion since the Great Depression
- Nation was experiencing lowest unemployment rates in 50 years
- The City of Monrovia's revenues were consistently strong:
  - Average property tax growth rate of 4-5%
  - Average sales tax growth rate of 2-3%
  - Transient occupancy tax (hotel tax) has been consistent and strong, with growth of 1-2% each year

# Economic Overview/Financial Impacts of COVID-19

## After COVID-19:

- Quarter 1 of 2020 experienced the worst quarterly contraction of GDP (-4.8%) since 2008, and a recession is highly likely.
  - *A recession occurs when there are two consecutive quarters of negative GDP.*
- Unemployment claims reach more than 36 million for the week of May 14
- Cities must evaluate the impact to local revenues, especially those cities that rely heavily on revenues such as sales tax and hotel tax. Monrovia has a moderate blend of these two revenues and will not be as negatively impacted as some other cities that have heavier concentrations of these revenues. In Monrovia:
  - Sales tax is expected to incur an annual loss of approximately 13.30%
  - Transient occupancy tax is expected to incur an annual loss of 25.55%
  - Good news: Property taxes will be minimally impacted in FY 2019-20

# FY 2019-20 Budget Update

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The purpose of tonight's presentation is to:

- Provide City Council with an update on the FY 2019-20 estimated actuals compared to budget and ask City Council for guidance on several items.
- Ask for approval of budget adjustments to the City's Transfers In/Out between funds.
- Provide a high-level overview of FY 2020-21
- Provide a proposed timeline for the FY 2020-21 Budget Update

# FY 2019-20 Projections

- When analyzing the financial impacts of COVID-19, there have been many challenges:
  - Numbers are fluid and frequently change
  - We are more than  $\frac{3}{4}$  of the way through the fiscal year, so there is a limited amount of time to make significant, impactful changes
  - We are unsure of when the Safer At Home Order will be lifted. The future is very uncertain.
  - These are unprecedented times. There is no previous financial model to use as a guide.
- Based on updated projections, we are expecting a loss in revenues of \$2.0M and a year-end deficit of \$556K in the General Fund.

# FY 2019-20 General Fund Projection

## GENERAL FUND Projection

	2019-20 ORIGINAL BUDGET	2019-20 REVISED BUDGET	2019-20 ESTIMATED ACTUAL
<b>Beginning Fund Balance</b>	<b>\$7,567,182</b>	<b>\$7,567,182</b>	<b>\$7,567,182</b>
<b><u>Revenue:</u></b>			
Property Tax	13,280,003	13,233,121	13,155,164
Sales Tax	11,124,252	10,924,446	9,470,700
Other Tax	5,159,081	4,618,932	3,943,155
Other Revenues	4,006,250	4,299,788	4,448,892
Operating Transfer In	8,600,055	8,600,055	8,781,709
<b>Total Revenue</b>	<b>42,169,641</b>	<b>41,676,342</b>	<b>39,799,621</b>
<b>TOTAL AVAILABLE</b>	<b>49,736,823</b>	<b>49,243,524</b>	<b>47,366,803</b>
<b><u>Expenses:</u></b>			
Personnel - Salaries and Benefits	25,507,880	25,276,479	24,656,422
Personnel - PERS	3,212,638	3,144,725	3,079,694
Maintenance & Operation & Capital Outlay	10,020,698	9,690,643	9,319,361
Project Expenses	435,033	435,033	435,033
<b>Total Expenses (Before Transfers Out)</b>	<b>39,176,249</b>	<b>38,546,880</b>	<b>37,490,510</b>
<b><u>Operating Transfer Out:</u></b>			
Retirement Fund Ongoing Transfer	2,600,000	2,600,000	2,600,000
Asset Forfeiture Fund	180,000	180,000	170,000
Public Library	10,000	10,000	0
Other Funds	173,906	113,906	95,016
<b>Total Expenses</b>	<b>42,140,155</b>	<b>41,450,786</b>	<b>40,355,526</b>
<b>Net Surplus/ (Deficit)</b>	<b>29,486</b>	<b>225,556</b>	<b>(555,905)</b>
<b>Ending Fund Balance</b>	<b>7,596,668</b>	<b>7,792,738</b>	<b>7,011,277</b>

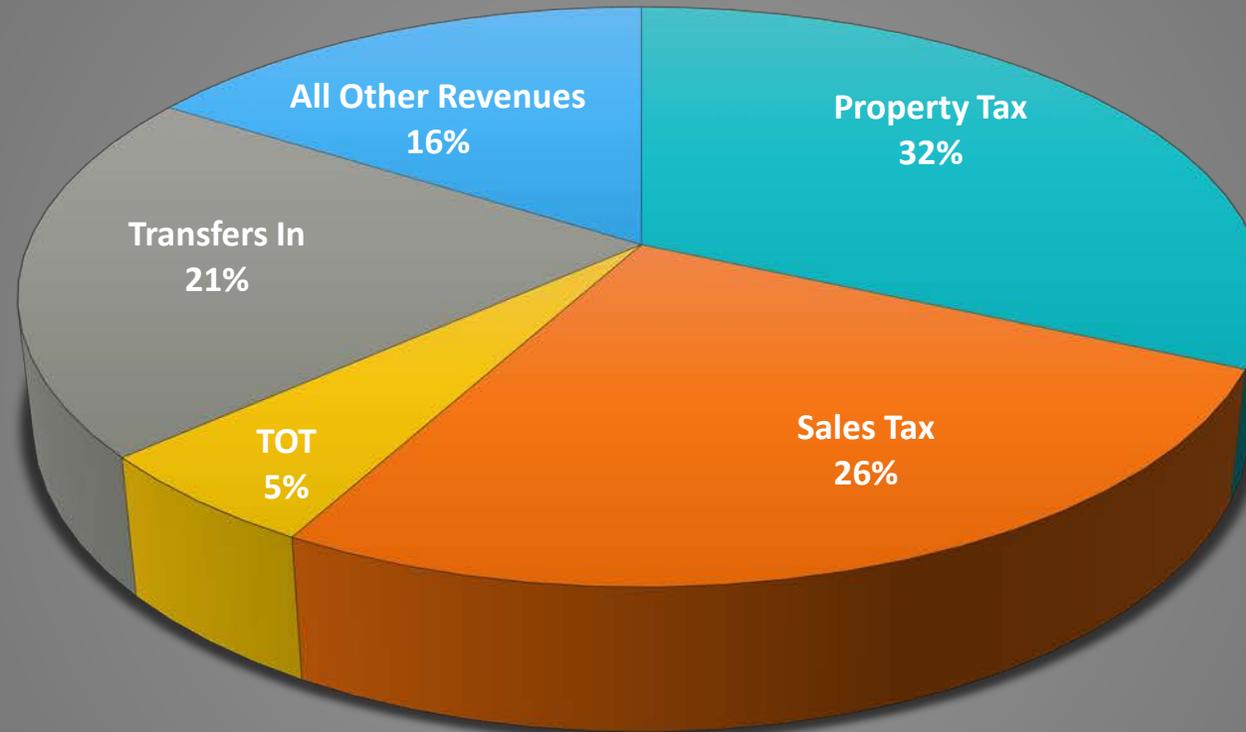
# FY 2019-20 Projections General Fund Revenues

Staff began analyzing revenues in late March. At that time, we were expecting a \$2.6M shortfall in General Fund revenues. Currently, we are expecting a \$2.0M shortfall. This loss in revenues is driving the year-end deficit of \$556K.

Revenue Item	FY 2019-20 Budget	FY 2019-20 Estimated Actual	Difference	Percentage Change
Property Tax	\$13,233,121	\$13,155,164	(\$77,957)	(.58%)
Sales Tax	\$10,924,446	\$9,470,700	(\$1,453,746)	(13.30%)
Transient Occupancy Tax (TOT)	\$2,253,257	\$1,677,480	(\$575,777)	(25.55%)
All Other Revenues <i>(Excludes Transfers In)</i>	<u>\$6,671,463</u>	<u>\$6,720,567</u>	<u>\$49,104</u>	.73%
Total	<u>\$33,082,287</u>	<u>\$31,023,911</u>	<u>(\$2,058,376)</u>	(6.22%)

# FY 2019-20 Projections General Fund Revenues

The two most impacted revenues in the General Fund are Sales Tax and TOT. Together, they make up 31% of the General Fund revenues.



# FY 2019-20 General Fund Revenues

## Property Tax

Property Tax FY 2019-20 Budget	Property Tax FY 2019-20 Estimated Actuals	Difference
\$13,233,121	\$13,155,164	(\$77,957)

- Property tax makes up 32% of General Fund revenues.
- Good news: FY 2019-20 impacts from COVID-19 will be minimal. A 1% decline has been incorporated for delinquencies.
- FY 2020-21 delinquencies may be slightly higher. Overall property tax revenue projections depend on the timing of the lifting of Safer At Home Order restrictions and the impact on the housing market.
- Most of our FY 2019-20 property tax revenues have been received.
  - Based on LA County’s payment schedule, we’ve received an 85% advance through April. The actual amount received is slightly higher than our projection of a 4.7% increase over the prior year (approx. 6%). This represents \$100k more than budgeted.
- Property taxes become delinquent on July 1<sup>st</sup>. May and July payments WILL BE impacted
  - During the Great Recession, delinquencies were highest ever at 5%
  - We estimate delinquencies to be approximately 1%

# FY 2019-20 General Fund Revenues

## Sales Tax

Sales Tax FY 2019-20 Budget	Sales Tax FY 2019-20 Estimated Actuals	Difference
\$10,924,446	\$9,470,700	(\$1,453,746)

- Sales tax makes up 26% of General Fund revenues.
- Sales tax is the most impacted revenue in the General Fund. Impacts will be significant in both years.
  - The timing of the lifting of restrictions, undoubtedly, will have a huge impact on revenues
  - For FY 2019-20, the shortfall is expected to be 13.3% less than budget
- Deferral Programs are expected to have minimal impact. There are two programs:
  - 90-day deferral program – Will be paid back by July 31, 2020
  - \$50K loan program – Will be paid back by July 31, 2021

# FY 2019-20 General Fund Revenues

## Sales Tax

- Sales tax revenue impacts are difficult to assess
  - The impacts of COVID-19 on businesses is unprecedented. Until we see actual data from CDTFA, we do not know the exact impacts on our businesses.
  - Sales tax information is not available until 2-3 months after the end of each quarter
    - Example: For quarter ending March 2020, information will not be available until late May or early June, at the earliest
  - Our sales tax consultants, HDL, are assisting with our projections
- Some positive news:
  - Auto dealerships were allowed to reopen on May 8. Autos and transportation make up 35% of our sales tax revenues
  - Businesses that remained open, such as the Home Depot and grocery stores, were busy
  - State and County pool are expected to show significant growth. Currently, the pools make up 13% of the City's total sales tax revenues. They are expected to grow by 10-15% during the Safer At Home Order.
- Staff will continue to monitor this revenue item closely

# FY 2019-20 General Fund Revenues

## Measure K Sales Tax

- Measure K will be significantly impacted by COVID-19, as well
  - Original Budget = \$1.15M
  - Revised Estimate from HDL = \$800,000
- These revenues have not yet been appropriated for use, so there is no impact to operations from this loss in revenue.
- Staff will continue to monitor this revenue item closely
- Additionally, we are assuming sales tax, across the board, will be impacted. This includes sales taxes in our Transportation Funds, as well.

# FY 2019-20 General Fund Revenues Transient Occupancy Tax (TOT)

TOT Revenue FY 2019-20 Budget	TOT Revenue FY 2019-20 Estimated Actuals	Difference
\$2,253,257	\$1,677,480	(\$575,777)

- TOT makes up 5% of the General Fund revenues.
- After sales tax, this is second most impacted revenue source in the General Fund
  - Annual expected loss = 25.55%
  - 4<sup>th</sup> Quarter (April-June) loss = 80%
- Impacts will most likely be significant in both years
  - The timing of the lifting of Safer At Home Order restrictions will have a huge impact on revenues
- A survey of hotel operators indicates occupancy rates have decreased by 70-80%

# FY 2019-20 General Fund Revenues

## Other Revenues

Other Revenues FY 2019-20 Budget	Other Revenues FY 2019-20 Estimated Actuals	Difference
\$6,671,463	\$6,720,567	\$49,104

- Other Revenues are expected to be impacted
- Fees for Service will be impacted from the closure of City facilities and cancelled programs, activities, and events
  - Community Services revenues are expected to be \$173K less than budget
- However, some increases are expected in other revenues
  - \$456K in additional AB 1290 revenues
  - \$120K in additional developer revenues
- When combining decreases with increases, the result is an overall net increase in Other Revenues of \$49,104

# FY 2019-20 General Fund Savings Items

Staff has been working on a plan to address revenue shortfalls since the Safer At Home Order was instituted

- With a \$2.0M revenue shortfall, significant changes are needed.
- Revenue loss is happening over 3.5 months. Corresponding savings measures must also be implemented over this short period of time.
- Staff has developed a series of savings strategies to help close much of the gap

# FY 2019-20 General Fund Expenditures

## Savings Items

In total, we have identified **\$1.27M** net savings in the General Fund through the following costs savings and reduction measures:

- Savings in Operational Budgets - **\$442K**
  - Each operating department thoroughly reviewed their budgets, considering the new fiscal reality. Each line item was reviewed and evaluated and significant adjustments were made. When evaluating expenses, adjustments were made that would be least impactful to our residents.
  - Some savings will be realized in reduced costs from City facility closures.
- Vacancy and Personnel Savings - **\$615K**
  - Savings of \$370K was achieved by keeping vacant positions open through the end of the fiscal year
  - Non-essential overtime was eliminated. Additionally, hours were reduced for part-time staff at closed facilities. Combined, this will result in a savings of \$144K to the General Fund.
  - The City Manager and Department Directors are voluntarily forfeiting leave time. Mid-managers are considering a similar forfeiture; however, details for Mid-managers have not been finalized at this time. Total leave forfeiture will result in \$101K in savings in the General Fund (\$133K across all funds).
- Adjustment of Transfers In/Transfers Out - **\$220K**
  - Transfers savings will be realized by reallocating salary expense from the General Fund to the Hazmat Fund and by reducing transfers to other funds not needed, after all. Additionally, reduction of costs in the Central Services Fund will allow a corresponding savings in the General Fund

# FY 2019-20 General Fund Net Deficit

With this proposal, we expect to have a remaining net deficit of \$556K

Revenue Shortage	(\$2,058,000)
Expenditure Savings/Transfer Adjustments	\$1,277,000
Apply Mid-Year Surplus	<u>\$225,000</u>
Remaining Deficit	<u>(\$556,000)</u>

*Rounded (Thousands)*

# FY 2019-20 General Fund Deficit Proposal

To address the \$556K deficit, staff is presenting the following proposals for Council's consideration:

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

Given that 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 or Measure K revenues 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 Development Services Fund

- COVID-19 has an impact on many current projects
  - Delays in supplies delivery systems, work outputs, administration and lending
  - Avalon Bay is rocking-and-rolling and City inspections remain ongoing
  - Entitlements have been issued...project applicants are waiting until the dust settles
- The Development Services Fund is used to account for building, planning, and engineering activities. The DS Fund includes revenues and expenditures for Citywide development activity
- The DS Fund is a stand-alone fund for accounting purposes, but is combined with the General Fund on the CAFR
- The City does anticipate FY20 revenues and expenses will be shifted to FY21, which will cause a FY20 deficit -
  - Revenue - \$3.2M shifted to next year
  - Expenditures - \$325k shifted to next year
- These shifts result in a negative fund balance in FY20.

# FY 2019-20 Projections

## Review of Other Funds (Non-General Funds)

A review of other funds was performed. Minimal impacts are expected in most other funds:

- Funds that are supported by sales tax revenues will see the biggest impacts
  - A decrease of 13.30% is expected in sales tax-based revenues
  - Impacts will be seen in the Transportation Funds (e.g., Proposition A, Proposition C, Measure R, and Measure M)
  - This reduction in revenues will be offset by a reduction in GoMonrovia program costs, as ridership has been down due to COVID-19.
- Gas Tax revenues are expected to be impacted:
  - Gas Tax is based on fuel consumption, so a reduction in miles travelled during the Safer At Home Order will impact revenues
  - We have not yet seen what the actual decline is, but expect a decrease of 20% at this time
  - It is expected that the decrease will be absorbed with little impact

# FY 2019-20 Projections

## Review of Other Funds (Non-General Funds)

- Property tax-supported funds will be minimally impacted
  - Property taxes are used to pay for debt service costs. All debt service payments will be met.
  - Includes funds such as the Retirement Fund, the Lighting and Landscape and Park Maintenance Assessment Funds, the Library Bond Fund, and the Hillside Wilderness Preserve Bond Fund.
  - A decrease of 1% is expected for delinquencies
- Enterprise Funds
  - Includes funds such as Water, Sewer, and other utility funds
  - Currently, we are seeing some delinquencies, but expect impacts to be minimal
    - March utility bill collections were \$165K more than the prior year, and April collections were \$45K more than the prior year.
- Overall, staff will closely monitor changes and will keep Council apprised of significant impacts.

# FY 2020-21 Budget Highlights

- Staff is currently working on projections and identifying the impacts of revenue losses for FY 2020-21
- The timing of the lifting of the Safer At Home Order restrictions is critical
- Staff is currently identifying savings strategies, which include the following:
  - Reevaluating and renegotiating most contracts
  - Reviewing all department budgets and identifying cost avoidance across all non-personnel expense categories
  - Evaluating vacant positions and looking at keeping non-critical positions vacant for most of the fiscal year
  - City Manager and Department Directors taking voluntary pay cuts to help achieve savings
  - Identifying other opportunities throughout operations for savings
  - Good News: We have a full fiscal year to realize savings vs. the 3.5 months that we have for FY 2019-20.

# FY 2020-21 Budget Timeline

Typically, we would be preparing the FY 2020-21 Budget Update during spring and early summer, with formal approval in June. However, COVID-19 presents several challenges:

- The uncertainty of the timing of reopening businesses leaves much uncertainty in determining our projected revenues, especially sales tax and hotel tax revenues
- Additionally, the delay in the availability of sales tax revenue information creates challenges in developing accurate projections
- Additional time is needed to identify and develop cost-savings strategies that will offset significant revenue impacts
- Therefore, staff is proposing a modified timeline for the FY 2020-21 Budget Update

# FY 2020-21 Budget Timeline

Staff is currently working on developing budget projections for the FY 2020-21 Budget Update and would like to propose the modified budget timeline below for City Council's consideration:

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

If approved, the City would continue to operate utilizing the original FY 2020-21 Budget that was approved in June 2019 until the FY 2020-21 Budget Update is complete.

# Seeking Council Direction

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Staff is seeking City Council direction for the following:

1. Seeking direction from City Council to utilize reserves or Measure K for the FY 2019-20 anticipated budget deficit of \$556K, with a plan for repayment presented as part of the FY 2020-21 Budget Update
2. Seeking direction from City Council regarding the deferred timing of FY 2020-21 Budget approval
3. Seeking approval from City Council for FY 2019-20 budget adjustments to the Transfers In/Transfers Out (attached to Resolution No. 2020-38)

# Next Steps

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## Next Steps:

- Staff will continue to monitor the financial situation closely and will return to City Council with updates, as needed.
- Staff will continue to develop the FY 2020-21 Budget Update and determine additional savings strategies
- Staff will return to City Council with the first Budget Study Session on July 21

# Questions?

