Review Potential Financial Scenarios due to COVID-19 & Direction to Staff on FY 2021 Budget Development

May 4, 2020
OVERVIEW

• Unprecedented time in our City’s history

• City Manager released proposed budgets on April 20, 2020, representing baseline budgets to continue conversations

• Proposed budget release started an intensive two-month budget process

• Today, review and determine the assumptions that the FY 2021 revised budget will be built on, to be discussed more fully starting May 11
FY 2020-2021 FISCAL RECOVERY PRIORITIES

• Council adopted budget principles continue to guide our work.

• Recommending Budget and Fiscal Recovery Priorities to help guide our work and evolve through these uncertain times.

1. Support economic recovery through changes to our policies and programs
2. Focus on resiliency over the long term while making service reductions and changes, ensuring that any services eliminated can be restored in future years
3. Seek new ways to conduct our work through efficiencies and a learning environment
4. Apply a citywide approach to reductions where possible, balancing impacts to the community
5. Use temporary solutions to bridge revenue losses expected in the short term
FY 2021 GENERAL FUND SOURCES $241.5 M

Sales Taxes 15.6%
Transient Occupancy Tax 12.3%
Documentary Transfer Tax 3.3%
Charges for Services 12.6%
Return on Investments 0.6%
Other Taxes and Fines 0.8%

Other Revenue 1.0%
Charges to Other Funds 5.0%
From Other Agencies 0.2%
Utility Users Tax 7.3%
Rental Income 6.6%
Property Taxes 21.9%
Permits and Licenses 4.0%
Operating Transfers-In 8.8%
FY 2020-2021 Forecast Scenarios

- Estimating $20 million impact to current FY 2019-2020 General Fund budget
  - Loss in estimated revenues of over $15 million in lower taxes and over $8 million in lower program revenues.
  - Expense savings is expected to assist in partially offsetting this revenue impact.

- FY 2020-2021 General Fund Operating Budget Scenarios estimate between $20 million and $39 million loss in major General Fund tax revenues
  - Scenario A: Disaster recovery (such as flood, fire, earthquake)
  - Scenario B: Shelter in-Place through this spring, followed by an economic recession
  - Scenario C: Phased shelter in-place through winter, followed by an economic recession
# FINANCIAL SCENARIOS

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<td>$42.8</td>
<td>$47.3</td>
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<td>$52.9</td>
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<td>Estimated Impact to General Fund CIP due to TOT loss $ (4.5)</td>
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<td><strong>Subtotal Major Tax Revenues</strong></td>
<td><strong>$125</strong></td>
<td><strong>$135</strong></td>
<td><strong>$140</strong></td>
<td><strong>$147</strong></td>
<td><strong>$126</strong></td>
<td><strong>$108</strong></td>
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<tr>
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<th>FY 2021</th>
<th>chng vs FY20</th>
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<tr>
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<tr>
<td>Sales Taxes</td>
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<tr>
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<td>-20%</td>
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<td><strong>-23%</strong></td>
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Build a FY 2021 proposed budget assuming Scenario B

- Assumes a shelter in place order through this spring/early summer, with an economic recessionary period dampening the growth once the order is lifted.

- As soon as June, businesses would be able to re-open and movement within society would be able to begin at some level. Economic engines such as the downtown core, California Avenue, and Stanford Shopping Center to support local restaurants and retail establishments would begin to rebuild the Sales Tax base.

- Transient Occupancy Tax would remain sluggish initially, however move to recessionary levels during the fiscal year.
Build a FY 2021 proposed budget assuming Scenario C

- Assumes a shelter in place order with a very slow phased lifting of that order through the calendar year, with an economic recessionary period dampening the growth once the order is lifted
- Continued restrictions on travel and other related impacts through fall as a result of social distancing, continued closure of populous locations and local economic engines such as the downtown core, California Avenue, and Stanford Shopping Center
- Transient Occupancy Tax would remain at or near current levels as travel remains restricted through the calendar year, however move to recessionary levels during the fiscal year.
Build a FY 2021 proposed budget assuming Scenario B plus 50% of Scenario C (an approximate $30 million loss in major tax revenues)

- Assumes a shelter in place order with a more rapid phased lifting of that order through the calendar year, with an economic recessionary period once the order is lifted.
- Restrictions on travel and other related impacts would be lifted sooner, only major events with large crowds and inability to social distance would lag. Therefore, populous locations and local economic engines such as the downtown core, California Avenue, and Stanford Shopping Center would return sooner with modification in business practices.
- Transient Occupancy Tax would steadily rise as shelter in place restrictions are steadily lifted and move to prior recessionary levels during the fiscal year.
BUDGET PROCESS AND TIMELINE

April 20 - Proposed Budget Transmittal to Council
Finance Committee to review Waste Water, Stormwater rates
Business Financial Support Development
Recovery Strategy Development

City Council FY 2021 Budget Adoption, FY 2021 Municipal Fees & Charges Adoption, various FY 2021 Utility Rates Adoption
Business Financial Support Plan Council Consideration
Recovery Strategy Council Consideration and Implementation

APRIL

MAY

Finance Committee to review Water, Electric and Gas rates
Committee/Commission review as needed (E.g. PTC, Storm Drain Oversight)
City Council FY 2021 Budget Hearings & Deliberations: May 4, 11, May 12/13, May 26
Roundtables / Business Support Development

JUNE

JULY/BEYOND

FY 2021 Budget Implementation
Recovery Strategy Implementation
NEXT STEPS

• Return with budget modifications in May and June
  • Discuss budget balancing overview with (May 11)
  • Review the implications of proposed impacts and ground up prioritization (May 12/13)
  • Budget final balancing strategy (May 26)
  • Budget Adoption (June 22)
• Continue to maintain essential city services and our public safety response
• Continue business support efforts
• Continue to develop our recovery strategy