

**COUNCIL MEETING**

May 4, 2020

Received Before Meeting

**10**

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

May 4, 2020

[www.cityofpaloalto.org/budget](http://www.cityofpaloalto.org/budget)

# OVERVIEW

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- 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

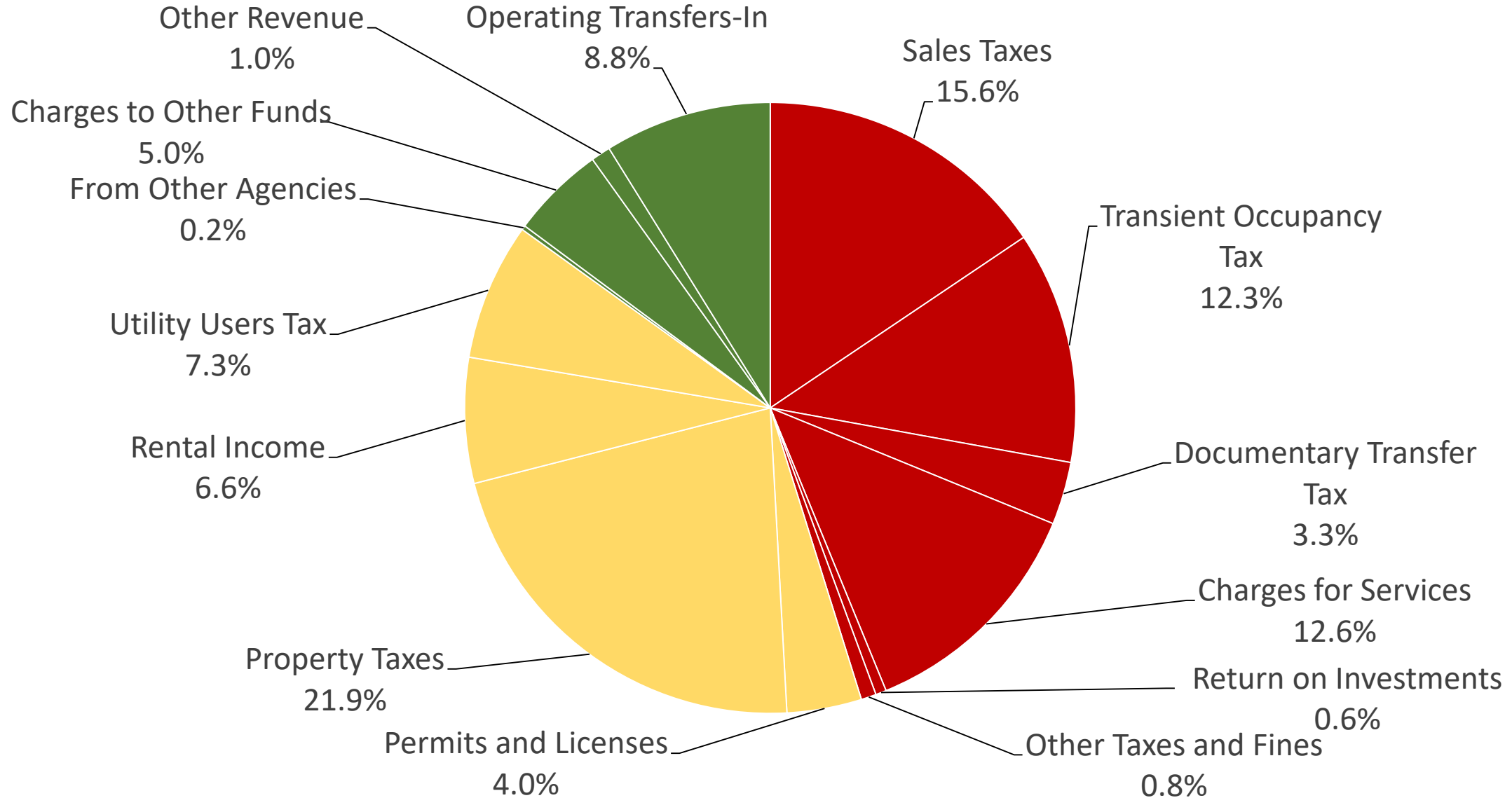
# FY 2020-2021 FISCAL RECOVERY PRIORITIES

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- 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



# FY 2020-2021 Forecast Scenarios

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- 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



	FY 2018 Actuals	FY 2019 Actuals	FY 2020 Modified Budget 2/20/2020	FY 2021 Proposed 4/20/2020	FY 2021 Scenario B	<i>chng</i> vs FY20	<i>chng</i> vs FY21	FY 2021 Scenario C	<i>chng</i> vs FY20	<i>chng</i> vs FY21
Property Taxes	\$ 42.8	\$ 47.3	\$ 50.6	\$ 52.9	\$ 52.6	4%	0%	\$ 52.0	3%	-2%
Sales Taxes	\$ 31.1	\$ 36.5	\$ 36.1	\$ 37.6	\$ 26.5	-27%	-30%	\$ 20.5	-43%	-45%
Transient Occupancy Tax	\$ 24.9	\$ 25.6	\$ 26.6	\$ 29.7	\$ 23.8	-10%	-20%	\$ 14.9	-44%	-50%
Utility Users Tax	\$ 15.4	\$ 16.4	\$ 17.6	\$ 17.6	\$ 16.0	-9%	-9%	\$ 15.1	-14%	-14%
Documentary Transfer Tax	\$ 9.2	\$ 6.9	\$ 8.1	\$ 8.0	\$ 5.6	-31%	-30%	\$ 4.7	-42%	-41%
Return on Investments	\$ 1.4	\$ 2.0	\$ 1.4	\$ 1.4	\$ 1.3	-6%	-5%	\$ 1.1	-21%	-20%
<b>Subtotal Major Tax Revenues</b>	<b>\$ 125</b>	<b>\$ 135</b>	<b>\$ 140</b>	<b>\$ 147</b>	<b>\$ 126</b>	<b>-10%</b>	<b>-14%</b>	<b>\$ 108</b>	<b>-23%</b>	<b>-26%</b>
<b>Change from FY 2021 Proposed</b>					<b>\$ (21.3)</b>			<b>\$ (38.8)</b>		
Estimated Impact to General Fund CIP due to TOT loss					<b>\$ (4.5)</b>			<b>\$ (8.5)</b>		

# SCENARIO B FISCAL RECOVERY

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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.

# SCENARIO C FISCAL RECOVERY

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## 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.



# ALTERNATIVE SCENARIO

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**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

**APRIL**

City Council FY 2021 Budget Adoption, FY 2021 Municipal Fees & Charges Adoption, various FY 20201 Utility Rates Adoption

Business Financial Support Plan Council Consideration

Recovery Strategy Council Consideration and Implementation

**JUNE**

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

**MAY**

**JULY/BEYOND**

FY 2021 Budget Implementation

Recovery Strategy Implementation

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# NEXT STEPS

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- 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



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