



Council Agenda Report

FROM: Lauren Lai, CPA, Finance Director

SUBJECT: Amend Resolution 19-115 Authorizing Changes to the Fiscal Year 2020-21 Budgets for the General Fund, Equipment/Vehicle Replacement Fund, Neighborhood and Community Improvement Program Fund, Information Service Internal Service Fund Revenue and Economic Uncertainty Reserve (Not a Project under CEQA Article 20, Section 15378 and under General Rule Article 5, Section 15061)

RECOMMENDATION:

That the City Council approves the attached resolution amending the Fiscal Year 2020-21 budget.

POLICY IMPLICATIONS:

It is good fiscal and budget policy to regularly review the financial results of City operations. In addition, governmental accounting standards require that the City Council be regularly updated as to the financial condition of the City.

FISCAL IMPLICATIONS:

Staff estimates that the effects of COVID-19 pandemic will devastate the City's General Fund revenues for FY19/20 ("FY20") and FY20/21 ("FY21") by approximately \$31 million, during the 2-year period (15 months). Consequently, the FY21 budget will need to be amended accordingly.

For the General Fund, the loss through the remainder of FY20 (mid-March through June 2020) is now \$13 million (or 16.2%), which is \$3 million higher than originally estimated in April 2020. In conjunction with the Monterey County Convention and Visitors Bureau (MCCVB), staff adjusted the City of Monterey's revenue loss assumptions for Transient Occupancy Tax (TOT), bringing total FY20 COVID-19 losses from \$10M to \$13M.

For the General Fund FY21, the current estimates project a revenue loss of \$18 million (21.7%) of an \$83 million budget. Council resolved \$10M of the \$13M FY20 COVID-19 General Fund deficit in April, so the balance of \$3M should be resolved in FY21.

The FY21 proposed solutions need to address \$21M, comprising \$3M FY20 COVID-19 deficit balance and \$18M FY21 COVID-19 deficit. Moreover, the FY21 budget had a structural deficit of \$2.8M which will increase to \$3.2M due to various program and/or insurance updates, however we anticipate this deficit of \$3.2M will be resolved with the new voter-approved Measure G (1/2-cent per dollar sales tax).

The proposed General Fund budget amendment provides \$900,000 in Reopening and Hiring Fund to phase back valued City services.

ENVIRONMENTAL DETERMINATION:

The City of Monterey determined that the proposed action is not a project as defined by the California Environmental Quality Act (CEQA)(CCR, Title 14, Chapter 3 (“CEQA Guidelines”), Article 20, Section 15378). In addition, CEQA Guidelines Section 15061 includes the general rule that CEQA applies only to activities which have the potential for causing a significant effect on the environment. Where it can be seen with certainty that there is no possibility that the activity in question may have a significant effect on the environment, the activity is not subject to CEQA. Because the proposed action and this matter have no potential to cause any effect on the environment, or because it falls within a category of activities excluded as projects pursuant to CEQA Guidelines section 15378, this matter is not a project. Because the matter does not cause a direct or any reasonably foreseeable indirect physical change on or in the environment, this matter is not a project. Any subsequent discretionary projects resulting from this action will be assessed for CEQA applicability.

ALTERNATIVES CONSIDERED:

The Council could choose to not approve budget adjustments but that is not recommended.

Purpose and Value of Periodic Budget Updates

The City’s fiscal year spans July 1 to June 30 and uses the biennial budget model, which means two fiscal years are budgeted (or planned) concurrently. The current biennial budget is FY20 and FY21, so this is the second year of the biennial budget cycle.

Budgets are a compilation of estimates (i.e., economics, programs, projects, service demands, emergencies, etc.) based upon information known at the time the budget is developed. A critical feature of effective governance, transparency and financial management is budget monitoring and reporting. This FY21 amendment reflects information known about the Coronavirus (COVID-19) pandemic on the City’s budget. The focus of this report is upon the General Fund and several other interrelated funds. At a later date (approximately September), Council will receive fiscal budget updates on other special funds such as Parking Fund, Gas Tax, Tideland Funds, etc.

DISCUSSION:

On April 7, April 21, May 21 and June 2, 2020, the City Council was briefed on the novel coronavirus (COVID-19) pandemic and its unprecedented and unpredictable nature and its effects on the City’s budget, expenditures and service levels.

The mission of the City of Monterey during this pandemic has been to remain focused on:

- maintaining public safety as the top priority,
- keeping the core functions of our local government operational, and
- to encourage a speedy recovery of our industries, including hospitality as the community’s leading economic driver.

For reference, the attached May 21 and June 2 agenda reports summarizes the COVID-19 FY21 General Fund deficit, proposed budget reductions, strategies and/or revenue enhancements. In times like these, all possible scenarios and budget reductions and service adjustments need to be put on the table. Previously, staff discussed multiple scenarios that ranged in severity of revenue loss. Council had a thoughtful discussion about the scenario assumptions and especially the need to consider the possibility of more severe economic losses. These budget amendments are based upon the “average scenario” -- which moderates the polar revenue loss scenarios.

Subsequent to the June 2 Council meeting, Staff reviewed the City real properties and does not recommend selling any property at this time. Moreover, a new law effective January 1, 2020 expands procedural requirements under the Surplus Land Act, and depending on the type of property proposed for sale, requires coordination with the Department of Housing and Community Development. Staff will compile all necessary information and return to Council in the first quarter of FY 20/21.

In recent weeks the City has received numerous calls and emails concerning the funding of Police, Social Services, Parks and Recreation, and Library services. We remain committed to serving the public, listening and being responsive.

With respect to the Monterey Police Department (MPD), our budget proposal includes reductions of more than 8% or \$1.59 million. This represents freezing and unfunding twelve positions (Six full-time and six part-time) and reductions in various program services and supplies.

A recent article published in the Monterey County Weekly compared the budgets of 14 local law enforcement agencies. The article highlighted the fact that the MPD's budget represents 13% of the City's overall budget allocation. This is the lowest among the comparable agencies.

On June 3, 2020, former President Obama called on Mayors to "take the pledge" to address police use of force policies in their cities. This can be found at <https://www.obama.org/mayor-pledge/>. Mayor Roberson has signed President Obama's commitment to action on police use of force.

Moreover, President Obama's website lists eight points surrounding police use of force policies that are drawn from the Police Use of Force Project and The Leadership Conference on Civil & Human Rights. The MPD incorporates aspects of all of the listed suggestions, and is updating policies to further address these principles.

Parks and Recreation and Library services are reopening in phases as we innovate new ways of providing our programs to our residents. As part of this agenda report, we are proposing to create a Reopening and Hiring Fund to leverage various funding sources to reopen these core services.

The City's short-term and long-term fiscal health depends on actions and difficult decisions that need to be made with the FY21 budget. Staff continues to seek input from neighborhood associations, business associations, and the public-at-large regarding cost saving and revenue-generating strategies during multiple virtual town hall meetings held in June and that will continue likely into July. On June 9th, staff met with representatives of the MCCVB to discuss various topics including MCCVB funding strategies and a potential hotel tax ballot measure.

Staff is recommending that Council adopt the resolution to amend FY21 budgets and provide direction therein. In July, we also suggest that Council discuss the potential ballot measures for the November election.

COVID-19 General Fund Revenue Reductions:

The FY21 General Fund proposed budget revenue reductions will be \$21M total, comprised of 18M for FY21 plus \$3M COVID-19 loss carryover, as shown below:

| FY20/21 General Fund Revenue (\$ million) | Revenue as a % of Budget | Total Budget | Loss Due to COVID-19 Avg Scenario | % Loss |
|---|--------------------------|---------------|-----------------------------------|-------------|
| Transient Occupancy Tax | 29% | \$23.8 | (\$9.8) | -41% |
| Sales Tax | 11% | \$8.9 | (\$1.8) | -20% |
| Property Tax | 16% | \$12.7 | (\$0.5) | -4% |
| Rents (Commercial) | 3% | \$2.2 | (\$0.1) | -2% |
| Conference Center Rents, etc. | 3% | \$2.2 | (\$1.4) | -62% |
| Parks & Rec Fees | 8% | \$6.5 | (\$3.4) | -52% |
| CDD Fees/License & Permits | 5% | \$4.0 | (\$0.3) | -8% |
| Business License | 5% | \$3.7 | (\$0.1) | -4% |
| Interest Income | 1% | \$0.6 | (\$0.3) | -41% |
| Other Revenues | 21% | \$17.2 | (\$0.3) | -2% |
| Total | | \$81.9 | (\$18.0) | -22% |

COVID-19 Departmental Reductions:

The FY21 General Fund proposed budget department budget reductions comprise reductions in positions, services and supplies. These reductions are consistent with the May 21 report except the retention of the Assistant Fire Chief and General Ledger Accountant / Auditor. There will be noticeable service implications, but hopefully, new revenues and the reopen and hiring fund (described in subsequent pages) will ease some of these challenges.

| | A | B | C | D = (B+C) | E (A+D) | F | G = (E/F) |
|---|---------------------|----------------------------------|-------------------------------|-----------------------------------|-----------------|------------------------|--------------------------|
| General Fund Department | General Fund Layoff | Additional Position Reductions / | Program Cuts Other Reductions | General Fund Program / Staff Cuts | Total Reduction | FY21 Adopted GF Budget | Total Reductions as % of |
| | \$8,134,707 | \$2,068,700 | \$5,137,197 | \$7,205,897 | \$15,340,604 | \$83,285,071 | 18.4% |
| Police | \$0 | \$1,143,000 | \$447,000 | \$1,590,000 | \$1,590,000 | \$19,457,419 | 8.2% |
| Fire | \$73,414 | \$327,583 | \$743,202 | \$1,070,785 | \$1,144,199 | \$23,413,852 | 4.9% |
| Parks | \$101,342 | \$217,355 | \$30,214 | \$247,569 | \$348,911 | \$4,562,561 | 7.6% |
| MSC & Rec | \$3,990,263 | \$0 | \$1,900,000 | \$1,900,000 | \$5,890,263 | \$9,722,721 | 60.6% |
| Library | \$1,857,021 | \$0 | \$83,434 | \$83,434 | \$1,940,455 | \$3,221,469 | 60.2% |
| Museum | \$206,463 | \$0 | \$13,762 | \$13,762 | \$220,225 | \$372,608 | 59.1% |
| PW | \$341,529 | \$166,424 | \$1,024,642 | \$1,191,066 | \$1,532,595 | \$6,980,249 | 22.0% |
| CDD | \$0 | \$72,183 | \$263,100 | \$335,283 | \$335,283 | \$3,578,088 | 9.4% |
| Conf. Center | \$1,293,280 | \$0 | \$120,388 | \$120,388 | \$1,413,668 | \$4,024,515 | 35.1% |
| CMO | \$121,751 | \$0 | \$208,534 | \$208,534 | \$330,285 | \$1,489,073 | 22.2% |
| ISD | \$149,644 | \$0 | \$40,700 | \$40,700 | \$190,344 | \$706,770 | 26.9% |
| CAO | \$0 | \$0 | \$56,221 | \$56,221 | \$56,221 | \$1,124,426 | 5.0% |
| HR | \$0 | \$0 | \$44,000 | \$44,000 | \$44,000 | \$800,001 | 5.5% |
| Finance | \$0 | \$142,155 | \$162,000 | \$304,155 | \$304,155 | \$3,031,214 | 10.0% |
| Non-Dept | | | | | | \$800,105 | |
| * Lay off / Freeze / Retirements - excludes PTS | | | | | | | |

COVID-19 Budget Solutions:

In addition to the department reductions, the FY21 General Fund budget will be balanced by various budget solutions and strategies, as shown below:

| # | FY21 Budget Solutions | Average Scenario |
|----------|---|---------------------|
| 1 | % of GF Budget | 25.2% |
| 2 | Scenario Targets | \$21,000,000 |
| 3 | COVID-19 SOLUTIONS | \$21,905,897 |
| 4 | NCIP | \$3,000,000 |
| 5 | Lay offs - April 2020 | \$8,100,000 |
| 6 | Position Reductions / Retirements - June 2020 | \$2,068,700 |
| 7 | Program Cuts - Other Costs | \$5,137,197 |
| 8 | Economic Reserve | \$600,000 |
| 9 | Revenue solutions | TBD |
| 10 | 1-year Reduction of CIP (\$1.4M to \$0.5M) | \$900,000 |
| 11 | 1-year Suspend OPEB (pay-go only) ** | \$800,000 |
| 12 | 1-year Suspend Savings for Vehicle Replace | \$500,000 |
| 13 | ISD One Time Savings | \$800,000 |
| | *Layoffs/Freezes/Retirements are included in Program Cuts-Other Costs | |
| | ** OPEB: Other Post Employment Benefits | |

New Reopen and Hiring Fund

On June 2, Council directed the one-time suspension of (1) other post retirement benefits (“OPEB” to be funded at “pay-go” level) and (2) vehicle replacement savings. In doing so, the Council made \$900,000 available for reopening and hiring as we phase back valued City services. This new “Reopen and Hiring Fund” will be a General Fund division with \$900,000 appropriated. During the fiscal year, the City Manager will have the authority to allocate this appropriation to various priority programs to reopen and hire. This is consistent with the existing budget control policy wherein the City Manager has the authority to amend the budgets within a fund (i.e., within or amongst the General Fund).

While the reductions in funding for Parks and Recreation, Library and Conference Center appear to significantly higher than in other Departments, Council is aware that with the reopening of California as well as the returning of residents and customers to our recreational programs and conventions the impacts will offsetting program revenues and increased revenues. The permission to reopen facilities accompanied by program revenues will for sure reduce the overall reduction percentages over the course of the next 12 months.

Moreover, as the City and labor groups agree upon concessions, such additional savings will be designated into this new “Reopen and Hiring Fund”. This new “Reopen and Hiring Fund” enables the City to consolidate and leverage resources, be responsive to reopen services, and provide transparency regarding appropriation of these funds. This fund will supplement the budget allocations already proposed for the Parks and Recreation Program as well as the Library.

Below is a summary of the \$900,000 Reopen and Hiring Fund:

| Reopen and Hiring Fund | FY21 |
|--------------------------------------|--------------|
| COVID-19 Revenue Reduction | \$21,000,000 |
| COVID-19 Proposed Solutions | \$21,905,897 |
| Available for "Reopen and Hire Fund" | \$905,897 |

New Revenues:

Solving the COVID-19 budget devastation requires both expenditure reductions and new revenues. To that end, Staff seeks Council and public input with the goal of scheduling more town hall meetings and several Council meetings to discuss new revenues. Continued discussion of a potential Transient Occupancy Tax ("TOT") ballot measure is scheduled for discussion with the City Council in July and include rate(s), terms, fiscal impacts, charter amendment(s) and possible ways to support the hospitality industry.

Since the beginning of the COVID-19 pandemic, Staff remains transparent and engaged with the public about the rapid pandemic development, implications and City's response. Significant new revenues are critical to reopening City services.

Structural Deficit and Measure G ½-cent per Dollar Sales Tax

Aside from COVID-19, the City General Fund had a pre-existing structural deficit which is estimated to be \$3.1 million for FY21, as summarized below:

| General Fund Structural Deficit | FY21 |
|--|----------------------|
| Adopted FY 21 Structural Defecit | (\$2,800,000) |
| Increasing Risk Insurance Premiums | (\$147,140) |
| Decision Packages | (\$218,600) |
| Total Structural Deficit - FY21 | (\$3,165,740) |

On March 3, 2020, Monterey City voters approved Measure G ½ cent per dollar sales tax. The policy was to utilize Measure G to solve the General Fund structural deficit forecast for FY21, FY22 and FY23 at (\$3.1) million, (\$3.8) million and (\$5.2) million, respectively. Measure G is effective July 1, 2020 and estimated to generate \$4 million for FY21, per the City's sales tax consultant HdL Companies. Like other revenues, Measure G will be impacted by COVID-19 and we will continue to monitor and adjust accordingly.

Community support for Measure G was strong and included the many times expressed sentiment for the City to continue reforming City expenditures in a variety of areas.

MCCVB

The FY20 and FY21 budget includes General Fund appropriation to MCCVB of \$992,405 and visitor center rent of \$134,000. The net General Fund contribution to MCCVB is \$858,405 (\$992,405 less \$134,000), which is 6.14% for FY21, when COVID-19 will reduce the General Fund TOT revenues to approximately \$14 million. Even with the anticipated \$9.8 million reduction of

TOT revenues for FY21, Staff recommends maintaining retaining the visitor center rent at \$134,000 and retaining the MCCVB appropriation at \$992,405 to ensure that regional marketing for hospitality is adequately funded.

Conclusion

Staff requests the Council approve the resolution to authorize budget adjustments and provide any further direction therein.

- Attachments: 1. Resolution
2. Agenda Report - May 27, 2020
3. Agenda Report - June 2, 2020

Writings distributed for discussion or consideration on this agenda item, pursuant to Government Code § 54957.5, are posted at <https://monterey.org/Submitted-Comments> within 72 hours of the meeting.