Zoom Teleconference
Monterey, California

Monterey City Council
Special Meeting Agenda

Council Study Session

Wednesday, April 28, 2021

4:00 PM

City Council
Clyde Roberson, Mayor
Dan Albert, Councilmember
Alan Haffa, Councilmember
Ed Smith, Councilmember
Tyller Williamson, Councilmember

City Manager
Hans Uslar

IMPORTANT NOTICE: Pursuant to Governor Newsom's Executive Orders N-29-20 and N-33-20, and to do all we can to help slow the spread of COVID-19 (coronavirus), meetings of the Monterey City Council and its Boards and Commissions are being conducted with virtual (electronic) participation only.

BEFORE EACH MEETING, members of the public may participate by submitting comment(s) to cityclerk@monterey.org until ½ hour before the start of the meeting. These emails and text messages are shared with the Council or relevant Board or Commission prior to the start of the meeting, but are not read aloud. All comments become part of the record and are made available online at https://monterey.org/submitted-comments

DURING EACH MEETING:
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- On a computer or smartphone: https://monterey-org.zoomgov.com/j/1601253340
- Or by telephone: Dial 833-568-8864 (Toll Free) or 669-254-5252 (Campbell, Calif.) or 646-828-7666 (New York, NY). If one number doesn't work, please try another.
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CALL TO ORDER

PLEDGE OF ALLEGIANCE

STUDY SESSION

STUDY SESSION items are used to provide information to the City Council and answer their questions to clarify issues. Study Sessions provide a setting for informal discussions between staff, consultants, board, commission,committee members and the City Council regarding specific programs, projects or policies. Council does not take formal action on the items.

1. Receive Unaudited General Fund March 31, 2021 Year-to Date Fiscal Report (Not a Project under CEQA Article 20, Section 15378 and under General Rule Article 5, Section 15061)

ADJOURNMENT

Members of the public have the right to address the City Council on <u>any</u> item on the Agenda, before or during its consideration [G.C. §54954.3(a)]. The Mayor will formally open the floor for public comment on items such as "Public Appearance" and "Public Hearings." Comment may be made via the method described in the Important Notice (re: COVID-19) at the top of the agenda.

Writings distributed for discussion or consideration on these matters within 72 hours of the meeting, pursuant to Government Code § 54957.5, are available at the following link: https://monterey.org/SubmittedComments

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Council Agenda Report

Date: 4/28/2021

Item No.: 1.

FROM: Hans Uslar, City Manager
Prepared By: Jordan Cupps, Acting Finance Director
Allyson Hauck, Human Resources Director

SUBJECT: Receive Unaudited General Fund March 31, 2021 Year-to-Date Fiscal Report (Not a Project under CEQA Article 20, Section 15378 and under General Rule Article 5, Section 15061)

RECOMMENDATION:

That the City Council receive the unaudited General Fund fiscal report. This report summarizes the unaudited financial results of the General Fund through 3 quarters of Fiscal Year 2021, as of March 31, 2021, and summarizes long-term priorities - highlighting the City's challenges related to the unfunded pension liability. The City's audited financial reports are expected to be completed by the end of Fiscal Year 2021.

This is an informational report without request for budget amendment and/or appropriation. City staff will return in June with the recommended biennial FY22/FY23 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 on the financial condition of the City. Moreover, City Charter section 6.6 requires the City to:

> ...employ a certified public accountant annually to investigate the accounts and transactions of all City officers and employees having the collection, custody or disbursement of public money or property, or the power to approve, allow or audit demands on the City treasury. As part of the annual audit, the money and securities in the City treasury shall be verified

FISCAL IMPLICATIONS:

The General Fund FY20 unaudited revenue loss was $11 million or – 14%. When Council adopted the initial General Fund FY20/21 budget, revenue loss was estimated at $18 million or 21.7%. With this estimate, Council addressed a hybrid solution of both one-time strategies and on-going program / position reductions.

In December 2020, staff provided an unaudited General Fund fiscal report with the COVID-19 scenario estimates showing a FY net deficit of $2.7 million beyond the already reduced budget adopted by the City Council.

In February 2021, staff returned to Council with updated estimates for FY General Fund revenues and expenditures - confirming that the financial condition had further deteriorated from initial estimates due to longer than projected pandemic impacts. Staff estimated an additional deficit of $2.9 million - up from the $2.7 million December 2020 deficit estimate.

The total COVID-19 fiscal impact estimated by staff totals $32 million to $34 million in revenue losses across two fiscal years, more precisely just 15 months. Council authorized the following recommendations to address the larger than anticipated deficit:

- Decreased General Fund budget revenues by $385,500
- Increased General Fund budget appropriation by $1,722,700
- Decreased Transfer-In by $500,000
- Increased Fund 718 Employee Benefit Fund appropriation by $800,00 for Unemployment Benefit costs

On March 11, 2021, President Biden signed the American Rescue Plan Act (ARPA) which allotted one-time funds to local agencies. While these funds are critical to supporting reopening efforts of the Library, Conference Center, and Sports Center, these funds are only 19% of the projected revenue loss of up to $34 million due to COVID-19. The City will receive $6.48 million, paid in two equal installments: the first in June 2021 and another installment in June 2022. Because the City's continued COVID-19 related losses are far greater than the allotment, the City will continue to take a slow and measured approach to reopening efforts.

With the amendments to the Fiscal Year 2021 budget, and with March 2021 year-to-date revenues and expenditures in, staff feels confident that Council has taken the appropriate steps to address the estimated deficit, with no need for additional Council action at this time.

With this report, staff would also like to provide some background and updates regarding the City's long-term unfunded pension liability.

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 receive this report, but that is not recommended.

DISCUSSION:

On April 7, April 21, May 21, June 2, June 16, September 15, December 15, 2020 and February 16, 2021 Council received budgetary briefings in the context of the novel COVID-19 pandemic, its unprecedented and unpredictable nature, as well as its effects on the City's budget, expenditures, and service levels. Council took courageous and strategic actions to maintain vital public services and ensure fiscal solvency.

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

- maintaining public safety, including COVID-19 response, as the top priority,
- keeping the core functions of our local government operational,
- encouraging a speedy recovery of our economic engines (e.g., hospitality industry), and
- provide public transparency and engagement.

Since the February 16, 2021 update, the following significant positive developments have occurred that have aided the City's ability to restore services, reduce continuing COVID-19 related revenue losses, and plan for a modified reopening of closed City buildings and services:

- Aiding to the reopening efforts, to date, the Fire Department has administered 3,496 vaccination doses within the County. These efforts focused on public safety employees, disaster service personnel, individuals experiencing homelessness, food service workers, and the public at large.
- On March 11, 2021, President Biden signed the American Rescue Plan Act providing $6.48 million in one-time funds to the City, allocated in two installments over 12 months.
- On March 16, 2021 Monterey County moved from the Widespread Risk Level (Purple Tier) to the Substantial Risk Level (Red Tier) which allowed the reopening of certain activities, including a modified Sports Center reopening. On April 7, 2021, Monterey County moved from to the Moderate Risk Level (Orange Tier), further reopening certain activities/
- On April 15, 2021, all Californians age 16 and over are now eligible for COVID-19 vaccines.

With these developments, staff is hopeful that a slow and measured reopening of tourism and closed services will support a slow and steady financial recovery for the City o throughout the spring and into FY22.

<u>General Fund FY21 Current Budget</u>

<u>For the FY20 and FY21 fiscal years, the estimated revenue loss is $32-34 million.</u> For the General Fund in FY21, the estimated loss is $21 million (or 26%). Council addressed the FY20 COVID-19 losses with one-time funding from capital projects (i.e., Neighborhood and Community Improvement Program and Capital Improvement Program). FY21 COVID-19 losses are addressed with a hybrid solution of both one-time strategies and on-going program / position reductions. See the later discussion about pre-existing City financial challenges and long-term unfunded priorities / obligations.

General Fund March 2021 Unaudited Financial Results

(Table # 1 March 31, 2021 YTD Results)

General Fund	FY21 Amended Budget	YTD Actual as of 3/31/21	% of Budget as of 3/31/21
Revenues	$ 67.6	$ 40.1	70%
Expenditures	$ 72.5	$ 50.4	59%

Through 3 quarters of Fiscal Year 2021, the City's March 2021 year-to-date (YTD) revenues are $40.1 million, or 59% of FY21 budget. While the City has amended its revenue budgets over the past 15 months in anticipation of lost revenue due to COVID-19, revenue collection has still lagged behind already dramatically reduced budget assumptions throughout FY21. COVID-19 continues to devastate transient occupancy tax ("TOT" or hotel tax), sales tax, fees and rents.

March 2021 year-to-date (YTD) expenditures are $50.4 million, or 70% of FY21 budget. As the City's revenue losses persisted throughout the fiscal year, it has placed an even greater importance on managing expenditures. To that end, mindful management of spending in salaries, benefits, services, and supplies has helped mitigate the higher than anticipated revenue losses.

(Table #2 Estimated June 30, 2021 Budget to Actual Update)

($ in millions)	FY21 Amended Budget	Estimated FY21 Actuals	Variance
Revenues	$67.6	$63.7	($3.9)
Expenditures	72.5	68.1	(4.4)
Revenues Over/(Under) Expenditures	*($4.9)*	*($4.4)*	*($0.5)*
Transfers, Debt Service, CIP	$2.1	$1.8	($0.3)
Estimated Deficit	**($2.8)**	**($2.6)**	**($0.1)**

The above table illustrates the ***estimated*** year-end budget to actuals that the City is forecasting using 3 quarters of FY21 results. As previously discussed, the sustained under-performance of revenues is being offset by a slightly larger reduction in expenditures, which currently projects a very minor improvement in the most recently projected deficit presented to Council in February.

Long-term Priorities

Prior to the pandemic, the City was already in a precarious financial position, which caused the City to declare a fiscal emergency in 2019. City voters approved Measure G (increased sales tax) in March 2020 and Measure Y (increased transient occupancy tax) in November 2020, which are helping the City with this financial devastation. Moreover, during this pandemic, we also need to remember the City's additional obligations beyond operational costs. These include:

- Aging City facilities -- with an average age of 55 years and estimated upgrade costs well in excess of $100 million and excluding the costs for a potential new library and public safety building.
- Pension liability -- with total liability of $165 million and annual growth of unfunded liability payment estimated to be over $1 to $1.5 million.
- Information technology updates -- across all departments, necessary to maintain critical technology infrastructure and cybersecurity
- Others -- affordable housing, long-term economic development and job creation, water sustainability, homeless services/solutions, neighborhood impacts and parks, undergrounding utilities, sea level rising (planning and mitigation efforts) and others.

Pension Liability Overview

Prior to the COVID-19 pandemic, the City faced significant rising expenditures related to the unfunded actuarial accrued liability payments (UAAL) for the City's CalPERS pension benefit. This UAAL was a driving force in the City's 2019 declaration of fiscal emergency and subsequent efforts to pass Measure G (½-cent sales tax).

The City is 66% funded and has a total unfunded liability of $12M that is expected to increase to $14.8M by FY23. Therefore, City staff will come back to Council in summer/fall 2021 to discuss options on how to address this funding gap. Staff stresses that the City must consider addressing unfunded liability while it considers which services to reinstate.

For background, the City has two Classic plans for employees hired prior to January 1, 2013, or new employees previously employed with a reciprocal agency with a break in service of less than 6 months. For miscellaneous employees, the formula is 2.7% at 55. For safety employees (police and fire) the formula is 3% at 50. These plans have both a normal cost (the fiscal year cost of providing retirement benefits for services performed by current employees) and the UAAL (the amount needed to fund past service credit earned for current employees and retirees).

For employees hired on or after January 1, 2013, without reciprocity from another agency, the City is mandated to offer the State-legislated pension reform plan known as PEPRA, or the Public Employees Pension Reform Act. For miscellaneous employees, this formula is 2% at 62, increasing to 2.5% at 67. For safety employees (police and fire) the formula is 2% at 50, increasing to 2.7% at 57.

Based on massive investment losses during the recession, the state and CalPERS Board began to make significant changes to the pension benefit. Many of the major changes, provided below, significantly impacted the City's pension related expenditures:

- In 2013, the State passed the California Public Employees' Pension Reform act (PEPRA) and the CalPERS Board began implementing changes to the funding policies for the pension program. These efforts were done to create a more sustainable pension system. While PEPRA should provide some savings to the costs of the pension benefit in the future, the changes made by the CalPERS board will increase the costs to public employers, most of whom are already struggling to pay for significant unfunded liabilities.
- The CalPERS Board then approved changes moving from a 15-year period for smoothing investment returns to a 5-year period.

- The Board changed the amortization of all investment gains and losses from a rolling 30-year period to a fixed 30-year period.
- In February 2014, CalPERS Board approved additional changes that adopted asset allocation changes to reduce expected volatility of returns, changed demographic assumptions such as increasing life expectancy for retirees. CalPERS announced that these changes would increase agencies' liabilities and would be amortized over a 20-year period with a 5-year "ramp up." This five-year ramp up means that the payments in the first four years of the amortization schedule are 20 percent, 40 percent, 60 percent, and 80 percent of the ultimate payment, which began in 2019.
- In December 2016, the Board approved lowering the CalPERS discount rate assumption, the long-term rate of return, from 7.50 percent to 7.00 percent was then phased in over three years. This change increased employer contribution costs beginning in Fiscal Year 2018-2019.
- The Board has also approved new actuarial assumptions and strategic asset allocation.

Based on the City's most recent CalPERS annual valuation of July 2020, the City was 66.1% funded in the Miscellaneous Plan and 66.3% funded in the Safety Plan in FY19. The City and employees share in the annual normal cost of the pension benefit. In addition to the normal cost, the following is the City's UAAL for FY21 the City's projected UAAL for FY 22 and FY 23 rounded to the nearest tenth:

Fiscal Year	Miscellaneous UAAL	Safety UAAL	Total UAAL
FY21	$7.3M	$4.7M	$12M
FY22	$8.2M	$5.4M	$13.6M
FY23	$8.9M	$5.9M	$14.8M

After CalPERS reported a 4.7% investment return for FY20, staff initially reported that the future figures would worsen once CalPERS revised its actuarial reports based upon COVID-19 impacts on CALPERS investments. Since that report, fortunately, CalPERS has reported a 12.4% investment return for the calendar year 2020.

After staff receives the 2021 CalPERS annual valuation, staff will return to Council in early FY22 with an update and potential funding options for Council consideration.

Outlook for the new Biennial Budget:

Currently, staff is working on preparing the new biennial budget. The economic recovery is visible in many parts of the City as tourists are returning to the City and previous lost jobs are being filled in again.

A recent State auditor's report ranks Monterey in the top 11 of 482 cities in California as hit hardest by the economic devastation caused by the pandemic. This fact needs to be on the forefront of our decision making and our speaking points when we meet with business associations, regional agencies and other interest groups. Monterey needs to focus first and foremost on the economic recovery of the City government and our local economy.

The City's proposed budget will need to be conscientious of this fact. Even with the inflow of American Rescue Plan Act funding, the City simply cannot afford return to previous funding and service levels. As a City, more than ever, we need to focus to finance its core functions. These “Must Fund” budget items will include Fire Services, Police Services, Public Works, Community Development, including all the support functions of HR, Finance, Legal and Information Systems. Other budget items we “Need to Fund” include the Library, Recreation, Sport Center and Conference Center. Lastly, there will be suggestions for program reductions in the “Nice to Have” category.

Not even a year ago the City lost 102 funded full time positions and sustained the remaining City operations through the defunding of dozens of NCIP and CIP projects while parallel creating small local business grants in the amount of $1 million and a local rental assistance program disbursing $960,000.

The City's new biennial budget will be reflective of the lessons learned during the pandemic. Lastly, the new budget will be also acknowledging that the pandemic is still going on.

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.