



# **CITY COUNCIL AGENDA REPORT**

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**MEETING DATE: APRIL 21, 2020**

**ITEM NUMBER: NB-6**

**SUBJECT: FY 2019/2020 GENERAL FUND ESTIMATED BUDGET IMPACTS DUE TO THE CORONAVIRUS (COVID-19) CRISIS AND RECOMMENDATIONS**

**DATE: APRIL 13, 2020**

**FROM: CITY MANAGER'S OFFICE/FINANCE DEPARTMENT**

**PRESENTATION BY: LORI ANN FARRELL HARRISON, CITY MANAGER  
CAROL MOLINA, BUDGET AND PURCHASING MANAGER**

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## **RECOMMENDATION:**

Due to the evolving coronavirus pandemic (COVID-19) and its immediate impact on City revenue, staff is reporting to the City Council revised revenue estimates and recommending the following adjustments be made to the FY 2019/2020 Revised Budget.

1. Receive and file the information regarding reduced appropriations in the Fiscal Year 2019/2020 Revised Budget of \$4 million as described in the FY 2019/2020 COVID-19 Estimated Fiscal Impacts Report in Attachment 1.
2. Reduce the FY 2019/20 Capital Improvement Projects Budget and approve the temporary deferral or suspension of \$6.0 million in General Fund supported Capital Improvement Projects in Fund 401 as listed in Attachment 2.

## **BACKGROUND:**

The worldwide coronavirus pandemic (COVID-19) is unprecedented in its size, scope and severity. With over 2 million people infected and 130,000 deaths as of April 15, 2020, the impact of this highly infectious and potentially deadly disease on human lives is unmatched. The impact of COVID-19 on the global economy is also startling in its scale and reach as 17 million Americans filed for unemployment, resulting in an unemployment rate of 13 percent and the worst recession since the Great Depression of the 1930s.

As a result of the speed and severity of the current economic downturn resulting from COVID-19, the City is experiencing a significant decrease in many of its General Fund revenues sources comprised of local tax revenues (including sales tax, hotel tax, and business license tax among others), fees, fines and charges from the normal revenue receipts typically received in the last quarter of the fiscal year (April 1st through June 30th). While the economic impact of COVID-19 for the current fiscal year is approximately a one-quarter impact, the loss in General Fund revenue will be significant due to the severity of the economic downturn and the large number of layoffs impacting the public and consumer spending. To help address the staggering financial impact of COVID-19 numerous pieces of legislation have been introduced at the State and Federal levels to help offset some of the fiscal impacts such as the Federal CARES Act. However, the fiscal stimulus packages rolled out to date do not address the revenue losses that states, counties, and municipalities are experiencing. Staff is projecting a minimum of \$10 million in revenue losses with a high end of \$18.5 million, or greater. Therefore, two revenue loss scenarios are presented to demonstrate the need to promptly address the funding shortfalls in the current fiscal year; thereby minimizing impacts to the City's reserve balances and services.

### *Phase 1 Cuts*

Based on current estimates, through fiscal year-end on June 30, 2020, the City is expected to experience a decrease in revenue of roughly \$10 million. As businesses deemed non-essential are closed coupled with the Governor's shelter-in-place order, sales tax is expected to decline by at least a 50% reduction in the remaining anticipated balance, Transient Occupancy Tax (TOT) by 27% annually (or 67% of the balance of the fiscal year), and a decrease of \$2.5 million in miscellaneous revenues (such as parking citations, room rentals, park program fees, and business license tax), among other shortfalls. In the General Fund, TOT revenue is anticipated to be \$2.6 million lower than budgeted, sales tax revenue \$4.9 million less than budgeted, and miscellaneous General Fund revenues of roughly \$2.5 million below budget estimates.

### *Phase 2 Scenario*

In the event of significantly lower revenue receipts, the shortfall through fiscal year end can be as high as an estimated \$18.5 million, or more. This scenario assumes a potential decrease from budget estimates in sales tax of \$10.6 million, TOT at \$3.5 million, and \$4.4 million in miscellaneous fees (citations, rentals, parks, cannabis, business license).

Property taxes, about 31% of General Fund revenue, is not expected to be materially impacted. However, the impact of COVID-19 may delay receipt of a portion of the property tax revenue into next fiscal year. The City is due roughly \$16.0 million in property tax revenue. The City does have a strong General Fund reserve balance of \$53.3 million, of which \$20.4 million is unassigned. However, the City cannot deplete its reserves to address ongoing operational costs in response to the COVID-19 pandemic. Once depleted, one-time General Fund reserves will no longer be available forcing the City to make more draconian cuts in the future. Additional cuts will need to be made to the current year budget if actual revenue shortfalls exceed preliminary estimates.

## **ANALYSIS:**

Staff's response to this economic downturn resulting from COVID-19 is based on the following principles:

1. Work through a deliberate process based on facts and not fear;
2. Amend the FY 2019/2020 Revised Budget to more closely reflect the current revenue estimates; and work to present a structurally balanced FY 2020/2021 Proposed Budget that provides the City Council with flexibility should the economy improve or worsen than currently projected; and
3. Prepare a plan for phased reductions, if necessary, that can be closely monitored and reviewed beginning now and into the new fiscal year, starting July 1, 2020.

Staff has diligently worked on presenting the City Council with a plan that proposes responsible actions that do not reduce the most essential City services or staff at this time. Instead, it provides a plan for targeted expenditure reductions and the suspension and/or deferment of capital improvement projects until late Fiscal Year 2020/21. Reductions have been prioritized by first identifying non-essential purchases and expenditures that could be postponed or cut; capturing savings from vacant positions not accounted for in the existing \$4.2 million in budgeted vacancy savings; cutting travel, conferences and training budgets; and reducing previously planned spending of non-essential goods and services.

The most recent revenue scenarios project potential fiscal impacts of a minimum of \$10 million and as high as \$18.5 million depending on the severity and length of the COVID-10 pandemic's impacts on the local, regional and national economy. Therefore, it is necessary that the City Council consider staff recommendations to reduce expenditures as soon as possible, including the reduction of General Fund supported projects that are included in the City's Capital Improvement Program.

### **Reductions to the Current Year FY 2019/2020 General Fund Budget**

Based on the estimated revenue impacts, staff is anticipating at least a \$10 million revenue shortfall between now and June 30. In order to address this significant decrease in revenue, the Finance Department implemented a FY 2019/2020 Cost Containment Plan detailing a five-pronged approach to curb the financial impacts of COVID-19. The Cost Containment Plan was developed in mid-March and included: 1) restricting purchases to essential services or goods only, 2) reducing existing encumbrances to essential purchases only; 3) capturing vacancy savings above the amount contained as an attrition factor in the FY 2019/20 revised budget, thereby limiting the hiring of positions; 4) eliminating remaining funds for travel, conferences and training except for required statutory and emergency training for public safety; and finally 5) reviewing all General Fund supported capital improvement and building modification projects for potential deferral to January 2021 or total suspension. The proposed expenditure reductions are outlined in Attachment 1, and the FY 2019/2020 Cost Containment Plan Memo issued to all Departments Citywide is Attachment 3.

## Capital Improvement Fund

Based on the FY 2019/2020 Cost Containment Plan, staff is proposing that City Council consider deferring or suspending capital improvement projects shown in Attachment 2 FY 2020/21. Staff will continue to work on reprogramming the deferred projects to a later date in the ensuing fiscal year that will be identified in the Five-year Capital Improvement Plan and presented to the City Council as part of the FY 2020/2021 Proposed Budget.

## Next steps in addressing the economic impacts of COVID-19

In conjunction with the five-pronged approach to reduce the projected current year deficit which is contained in the Cost Containment Plan, and the development of the FY 2020/2021 Proposed Budget, staff will also prepare a contingency plan for future reductions potentially needed in the current fiscal year if this first round of cuts is insufficient to end the year in balance by June 30, 2020. City departments will prioritize reductions of their total General Fund budgets based on the fiscal impacts of COVID-19 for evaluation by the City Manager. This budget exercise is a precautionary measure and does not require action at this time. Staff will continue efforts to prepare various expenditure reduction plans for a more impactful deficit reduction scenario, if needed.

In conjunction with these plans, staff will continue to closely monitor actual versus projected revenue receipts, particularly sales tax, hotel tax, business license tax, and miscellaneous revenues, that will assist in providing more firm revenue estimates into the new fiscal year. Additionally, staff continues to assess and seek reimbursement as available from the Federal CARES Act, FEMA, CalOES, and the County EOC, as well as other COVID-19 financial opportunities, if eligible.

The City Manager has also directed a working group led by the Assistant City Manager, Development Services Director, Economic Development Manager, other City staff and external stakeholders that are working to develop an economic recovery and business development plan for Costa Mesa businesses. The Mayor and City Council have also been extremely committed to helping business owners in Costa Mesa during this difficult time and have led efforts to educate local businesses about the funding opportunities provided by multiple stimulus packages, as well as continued aggressive lobbying efforts.

The Finance Department continues to provide Cost Recovery guidance in conjunction with public safety and the City Clerk's Office in tracking COVID-19 related expenditures and ensuring proper documentation procedures are followed to maximize fiscal recovery efforts related to COVID-19 unanticipated impacts that are not included in the budget.

While Finance continues to work with departments in the preparation of the FY 2020/2021 Proposed Budget, Departments have been instructed to be prepared to submit reductions to maintain a structurally balanced budget in FY 2020/21.

**ALTERNATIVES CONSIDERED:**

The City Council could decide to retain some of the expenses outlined above, with the understanding that the City would be likely spending from the City's General Fund reserves.

**FISCAL REVIEW:**

The fiscal impacts of COVID-19 will continue to be closely monitored as revenues are received, and emergency funding is allocated, if any.

**LEGAL REVIEW:**

The City Attorney's Office has reviewed and approved this report as to form.

**CONCLUSION:**

During these unprecedented times and economic downturn resulting from the COVID-19 crisis, staff is recommending that the City Council:

1. Receive and file the information regarding the City Manager's reductions to the FY 2019/2020 Revised Budget as listed in FY 2019/2020 COVID-19 Estimated Fiscal Impacts (Attachment 1).
2. Approve the deferment and/or suspension of \$6 million in Capital Projects listed in the Ongoing Capital Projects for Cancellation or Funding Reductions for FY 19-20 (Attachment 2).

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**CAROL MOLINA**  
Budget and Purchasing Manager

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**LORI ANN FARRELL HARRISON**  
City Manager

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**KIMBERLY HALL BARLOW**  
City Attorney

**ATTACHMENTS:**

1. [FY 2019/2020 COVID-19 Estimated Fiscal Impacts, as of April 7, 2020](#)
2. [Ongoing Capital Projects for Cancellation or Funding Reductions, Remaining Balances as of March 25, 2020](#)
3. [FY 2019/2020 Cost Containment Plan Memo](#)