



MEMORANDUM

TO: CITY COUNCIL

FROM: MICHAEL STEVENS, ADMINISTRATIVE SERVICES DIRECTOR

SUBJECT: DISCUSSION AND CONSIDERATION OF IMPLEMENTING STRATEGIES TO ADDRESS THE PROJECTED FY 2019-20 BUDGET SHORTFALL

DATE: APRIL 28, 2020

SUMMARY OF ACTION:

Review and discuss implementing strategies to address the projected FY 2019-20 budget shortfall due to impacts from the Coronavirus (COVID-19) pandemic.

IMPACT ON FINANCIAL AND PERSONNEL RESOURCES:

The current projected budget deficit due to revenue shortfalls brought on by the Coronavirus is approximately \$1.2 million in FY 2019-20. The following discussion addresses the budget shortfall by introducing short-term budget balancing strategies that if implemented will correct the current financial shortfall.

RECOMMENDATION:

It is recommended the City Council discuss and consider implementing strategies to address the projected FY 2019-20 budget shortfall.

BACKGROUND:

On March 24, 2020, the City Council adopted a Resolution ratifying the existence of a local emergency in response to the Coronavirus pandemic. In an effort to slow the spread of the disease, the Centers for Disease Control and Prevention, the California Department of Health, and County of San Luis Obispo have issued shelter at home directives to enforce physical distancing, prohibited group events, and taken other precautions to protect health and prevent transmission of this highly communicable virus. As a result of the public health emergency and shelter at home directives, many City residents and local businesses will experience income loss, ultimately impacting the City's ability to generate revenue.

On Tuesday, April 14, 2020, staff presented an update on the revenue impacts due to the Coronavirus (COVID-19) pandemic. The update identified three of the City's largest revenue sources, as well as recreation fees, and the projected fiscal impact that various governmental orders and actions needed to slow the spread of the Coronavirus will

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potentially have on revenue estimates for the final quarter of this current fiscal year, which is from April 1st and ends June 30th, 2020. The four revenue sources are listed in Table 1 with their projected shortfalls.

Table 1 – Forecasted Revenue Shortfall

<u>Revenue</u>	<u>Shortfall</u>
Sales Tax	\$ 550,000
Transient Occupancy Tax	\$ 300,000
Property Tax	\$ 200,000
Recreation Fees	\$ 183,000
Total	\$1,233,000

While the previous update to the City Council focused on identifying major revenue impacts due to the Coronavirus, that update did not attempt to provide solutions to address these shortfalls. Staff is prepared to discuss short-term strategies that if implemented will address the forecasted financial shortfall in the current year.

ANALYSIS OF ISSUES:

The national and state response to the Coronavirus, combined with the uncertainty of how long the presence of the virus will disrupt the local economy, has made forecasting particularly challenging. So far, California’s Governor has not yet provided a timeframe for lifting the shelter at home order, which would allow people to return to work and businesses to reopen. Some estimates are that the statewide shelter at home order will continue until the end of May 2020 with a potential for the virus to run its course by the end of September.

Estimating whether revenue short-falls are of a short-term or long-term nature becomes an important consideration in developing and implementing budget balancing strategies and bringing about structural balance in the current fiscal year. Since the Coronavirus, and the fiscal challenges brought on by attempting to control the virus, is believed to be an isolated event and not a downturn that is likely to continue indefinitely, short-term budget balancing strategies are being recommended. If we believe that the downturn in revenues or increase in costs are systemic, then long-term balancing strategies would be more appropriate. The goal with either approach is to strike a balance between maintaining fiscal health, while also minimizing the impact of budget reductions which effect community services and City staff. The benefit of implementing short-term budget balancing strategies is that they yield a positive return in a short period of time, they are not complicated to implement, and they can be reversed if the financial climate improves or the intended fiscal impact has been achieved.

The immediate goal at hand is to address the revenue shortfall in the current fiscal year with short-term budget balancing strategies. However, it may be necessary to continue to

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implement these strategies as we focus on the preparation of next year’s FY 2020-21 budget. The following are short-term strategies for City Council consideration.

RECOMMENDED SHORT-TERM BUDGET BALANCING STRATEGIES

Hiring Chill

In a hiring chill, City Manager approval would be required to fill vacant positions. The City Manager will only approve filling vacant positions if the Department Director can demonstrate that the position is necessary to meet public health, safety or other high priority needs that cannot be met on an interim basis through contract, overtime or temporary staffing.

Staff is recommending implementing a hiring chill for the final quarter of this fiscal year. Excluding part-time staff, there are currently four vacant permanent positons at some phase in the recruitment process. Two of the vacancies are within the Police Department and one each in the Community Development and Public Works Departments. The average salary and benefit cost for each of these four positons is \$72,900 per year, or a total of \$11,200 per payroll period (two weeks). With eight payroll periods remaining in the final quarter of the fiscal year, keeping all four positions vacant would result in additional savings of \$89,600 in the final quarter.

As previously discussed, recreation fees will be significantly impacted in the months of April through June as staff and City residents adhere to the shelter at home directive. This has resulted in the temporary closure of recreation programs. There are currently 23 part-time recreation services staff that are currently being furloughed until recreation programs can once again begin serving the public. It is anticipated that many of these part-time staff will file claims for unemployment relief. Since the City is self-funded, the City is billed by the Employment Development Department (EDD) for approximately two-thirds of the part-time staff’s regular salary. On average, recreation part-time staff salary costs per payroll period is \$13,200 and the portion paid out through unemployment claims would be \$8,800, leaving potential savings of \$4,400 per payroll period, or \$35,200 with eight payroll periods remaining in the final quarter.

Although not a result of implementing a hiring chill, salary and benefit savings for the first nine months of the year (18 payroll periods) should be included into any discussion on estimated labor savings this fiscal year. Salary and benefit savings for the first nine months of the year equated to approximately \$295,000.

The current year-to-date salary and benefit savings through the first nine months of the fiscal year and the additional salary savings for the final quarter, if a hiring chill is implemented, is reflected in the estimated savings amount below.

Estimated Savings \$419,800

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Travel Chill

The goal of a travel chill is to limit travel and training related costs to achieve short-term savings. During a travel chill, the City Manager is responsible for authorizing and approving all travel and training activities. It is estimated that \$32,000 in travel/conference/training cost remains unspent through the end of March. It is realistic to assume that 80% of travel and training can be suspended or postponed for the remainder of this current fiscal year, saving approximately \$25,600.

Estimated Savings \$25,600

Operating Cost Review

One effective short-term budget balancing strategy is to identify special projects, contractual services, and ongoing expenses in the budget for possible deferral or elimination. City fiscal staff met with each Department Head over the past week to review their current budgets with the challenge of identifying unspent expenditures, postponing non critical expenditures, or eliminating certain expenditures all together. Staff identified a number of expense reductions for FY 2019-20 that if delayed, postponed, or eliminated will result in savings within the current fiscal year. The total amount of the identified savings is \$294,000. The detailed analysis of each department’s savings is reflected in Attachment 1.

Estimated Savings \$294,000

Identifying Revenue Options

The City has a separate Local Sales Tax fund to track revenue and costs associated with the local half-cent sales tax Measure O-06. In 2006, voters of Arroyo Grande approved Measure O-06, which established a half-cent local sales tax to meet funding needs identified in the City’s long range financial plan for infrastructure improvements, including street, drainage and creek systems; transportation projects; public safety needs; and facility upgrades to meet American with Disabilities Act (ADA) requirements.

In the City’s FY 2019-20 adjusted budget, approximately 91% of the Five Cities Fire Authority’s (FCFA) budget was funded through the City’s primary operating fund, the General Fund, and the remaining 9% was funded by the Local Sales Tax Fund. Our current forecast assumes that more of the FCFA financing will come from the Local Sales Tax Fund rather than the General Fund. Shifting 11% of FCFA funding from the General Fund to the Local Sales Tax Fund will generate savings this year of \$286,000. The Local Sales Tax Fund has sufficient fund balance to absorb the additional allocation for the current year and into the future.

Estimated Savings \$286,000

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Reduce General Fund Contingency

The City has a Contingency Reserve where funds are set aside to protect against unexpected or unforeseen losses that result in short-term budget gaps. The City’s Fiscal Policy provides guidance on setting a Contingency Reserve amount and on maintaining adequate reserve balances. Per the policy, it states that the City should maintain a Fund Balance reserve goal of 20% of expenditures with a minimum of 15% in General Fund reserve. In addition, a minimum of 5% of the reserve goal should be set aside and identified as a Contingency Reserve.

The adjusted FY 2019-20 budget anticipates an ending Fund Balance of \$3.8 million or 18% of total expenditures. The fiscal year started with a Fund Balance of \$5.7 million, or 31%, but was reduced by \$2 million dollars due to the pre-payment of CalPERS retirement costs. Each 1% of Fund Balance reserve equals approximately \$207,000. Reserves are one-time in nature and the use of reserves to fund operational expenditures should be limited and not considered to be a long-term operational funding source. Staff recommend reducing the Contingency Reserve in the current fiscal year from 5% to 4% to address the shortfall in revenues.

Estimated Savings \$207,000

Table 2 summarizes the discussion up to this point. The budget shortfall is addressed with short-term budget balancing strategies along with actual labor savings to date.

Table 2: Proposed Short-Term Balancing Strategies and Existing Salary Savings

<u>Short-term savings</u>	<u>FY 2019-20</u>
Hiring chill permanent staff (4 positions - April – June)	\$89,600
Hiring chill part-time rec staff (23 positions - April – June)	\$35,200
Travel chill (April – June)	\$25,600
Operating cost savings	\$294,000
Increase local sales tax allocation for FCFA	\$289,000
Reduce Contingency Reserve to 4%	<u>\$207,000</u>
Total Short-Term Balancing Strategies	\$940,400
 <u>Existing labor savings</u>	
Actual salary savings through March 31	\$295,000

Total Forecasted Savings	\$1,235,400
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While staff has recommended the foregoing short-term budget balancing strategies, it in no ways represents all the short-term balancing strategies available to the City. The following are additional short-term budget balancing strategies that can be considered,

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yet are not recommended at this time. If the current strategies recommended are not effective or do not achieve the intended fiscal impact, then some of these additional strategies may be implemented.

ALTERNATIVE SHORT-TERM BALANCING STRATEGIES

Voluntary Time Off (VTO)

City staff may take up to a given amount of VTO hours within a given year with appropriate Supervisor and Department Head approval. One of the most powerful uses of a voluntary time-off policy is as a cost-cutting measure. While the City would still have to bear the employer share of benefit costs for staff utilizing VTO, the savings comes from staff foregoing their normal pay for those days taken. Instituting a voluntary time-off policy can in some instances increase employee satisfaction and also potentially prevent the City from having to reduce costs through more drastic measures like Mandatory Time Off or layoffs. While VTO programs are more effective over a full fiscal year, VTO could be offered for a shorter period, as would be the case for the final quarter of this year. Since VTO depends on staff volunteering for time off, it is difficult to determine upfront the enthusiasm and participation of a VTO offering. Without clear estimates on participation, estimating the financial savings becomes more difficult in the long run.

Mandatory Time Off (MTO)

Otherwise known as an unpaid furlough program, a mandatory time-off program is one way to avoid layoffs. Typically, City staff is required to take a number of mandatory days off or the City offices close for a scheduled number of days, usually set to match the savings targeted by the City. Individuals that are required to take MTO are not paid their salary but continue to receive benefits and time in service credits for retirement purposes. Mandatory time off has its disadvantages in that it can lower employee morale and temporarily reduce services provided to the public. Staff is not recommending MTO as a short-term budget strategy to address the current financial gap due to the shortened timeframe this year, but may be considered for the upcoming FY 2020-21 budget if necessary.

COVID-19 Stimulus Money

The existing CARES Act, and the Coronavirus Relief Fund authorized under the bill, does not provide for local Cities unless they have a population exceeding 500,000 residents. The National League of Cities is calling on Congress to advance a fourth emergency appropriations package to address the immediate need for local relief by making direct emergency funding available to every city in need, regardless of population. Staff will continue to monitor the availability of any stimulus monies. If local stimulus monies are made available, those monies will help mitigate some of the other short-term budget balancing strategies put in place.

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ALTERNATIVES:

1. Discuss and consider implementing strategies to address the projected FY 2019-20 budget shortfall;
2. Direct staff to provide more specific information at a later date; or
3. Provide other direction to staff.

ADVANTAGES:

Implementing short-term strategies will address the projected budget short-fall and establish ongoing financial stability with little impact on service levels.

DISADVANTAGES:

There are no disadvantages.

ENVIRONMENTAL REVIEW:

No environmental review is required for this item.

PUBLIC NOTIFICATION AND COMMENTS:

The Agenda was posted at City Hall and on the City's website in accordance with Government Code Section 54954.2.

Attachment:

1. Operating Cost Review Detail - Identified savings

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Attachment 1

Operating Cost Review detail - Identified savings

Department	Savings	Comment
<u>Community Development</u>		
East Grand Master Plan	\$ 42,000	Delay costs associated with plan
Housing Element update	\$ 33,000	Work on Housing Element was delayed
Reductions in contractual services	\$ 12,000	Various reductions in contractual services provided
<u>Recreation Services</u>		
Recreation	\$ 30,000	Recreation savings associated with COVID-19 shut down
<u>Information Technology</u>		
PD data storage device	\$ 23,000	Primary savings due to revision of existing support agreement from 3 yrs. to 1 yr.
Savings on various project costs	\$ 14,000	Realized price reductions on projects due to decreases in various equip and licensing costs at the time of purchase
<u>City Clerk</u>		
Cablecasting Services	\$ 10,000	Costs savings primarily due to cancellation of Planning Commission meetings this fiscal year
<u>Public Works</u>		
Delay or eliminate various contractual services	\$ 30,000	Savings on traffic signal services and misc. consulting work
Postpone non critical landscaping services	\$ 15,000	Postpone non critical contracted landscaping services
Defer Soto Complex maintenance	\$ 5,000	Defer certain maintenance at Soto Complex until recreation programs can start back up
Anticipated savings in building maintenance	\$ 10,000	It is expected that building maintenance costs will be below budget
<u>Police Department</u>		
Postpone new leases on police vehicles	\$ 50,000	Previously leased vehicles now owned by City until a lease for new vehicles can be negotiated
Delay implementation of Canine Program	\$ 10,000	Delay the implementation of Canine Program to save costs
<u>Administrative Services</u>		
Identified savings for employee negotiations	\$ 10,000	Delays or shortened labor negotiations resulting in lower contractual services
Total Savings	<u>\$ 294,000</u>	