



MEMORANDUM

TO: CITY COUNCIL

FROM: MICHAEL STEVENS, ADMINISTRATIVE SERVICES DIRECTOR

SUBJECT: CONSIDERATION OF FURTHER ADJUSTMENTS TO FISCAL YEAR 2019-20 BUDGET

DATE: MAY 12, 2020

SUMMARY OF ACTION:

Review and discuss an update to the projected Fiscal Year (FY) 2019-20 budget based on new information discovered since the last City Council meeting.

IMPACT ON FINANCIAL AND PERSONNEL RESOURCES:

The review and discussion is based on additional information that impacts the current year's financial projections. This new information adds \$439,700 in expense to the financial forecast that was not anticipated or included in the most recent budget shortfall projections.

RECOMMENDATION:

It is recommended the City Council discuss and consider utilizing additional Contingency Reserves to address the projected FY 2019-20 budget shortfall.

BACKGROUND:

On April 28, 2020, the City Council reviewed and discussed implementing strategies to address the projected FY 2019-20 budget shortfall. At that time, it was identified that the shortfall in revenue due to impacts from the Coronavirus (COVID-19) pandemic would approximate \$1.2 million. At the Council meeting, various short-term budget balancing strategies were presented which identified approximately \$1 million of expenditure savings to offset the revenue shortfall. It was also recommended that the remaining shortfall, the amount not achieved through expenditure savings, would be achieved by reducing the Contingency Reserve from 5% to 4%. This would result in an additional \$207,000 reduction in the shortfall gap. Ultimately, the City Council directed staff to move forward with these short-term budgeting strategies to address the current fiscal year's budget gap.

As part of the overall discussion at the April 28th Council meeting, a number of questions were directed by City Council to staff. One question in particular was regarding a specific

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line item in the FY 2019-20 budget described only as “expenditure savings”. The specific question asked was whether this line item, in the amount of \$439,700, was included as part of the overall savings calculation. Staff’s response to the question at the meeting was that this savings was included as part of the total estimated savings. In reviewing this issue further following the meeting, it was discovered that the amount was not factored into the forecasted budget shortfall. Staff estimates that this will result in an additional \$439,700 in expense to the financial estimate for the current fiscal year.

ANALYSIS OF ISSUE:

On June 11, 2019, the City Council received a Budget Update Report for Fiscal Year 2019-20. Typically, the Administrative Services Department prepares periodic budget updates to the City Council and an update to the FY 2018- 2020 Biennial Budget was presented on that date. In the report, a number of budget adjustments and additional appropriations were requested to update the budget with more recent estimates. The report included an item identifying \$439,700 in “expenditure savings,” but it did not identify how these savings would be achieved. Ordinarily, the savings would be identified by account and the budget would be adjusted on a line item basis so that accurate tracking and expenditure control could take place within the year. Because the savings were not specifically identified by account, this most likely explains why this amount was not included in other budget adjustments as they were updated in the City’s financial system for budget purposes. The net impact of not identifying this savings by particular expense accounts results in having to reduce the Fund Balance Available in order to balance the budget.

As previously mentioned, the recent April 28th City Council meeting discussion was focused on implementing short-term budget balancing strategies to address the current year’s forecasted revenue shortfall attributed to the Coronavirus. These strategies identified \$1 million in expenditure savings and recommended the one-time use of reserves of \$207,000. The Adjusted Budget, which typically reflects the original Adopted Budget plus any adjustments to specific accounts during or prior to the start of the fiscal year, was not updated to include the \$439,700 expenditure savings amount. Because total estimated savings is calculated based on the difference between the Adjusted Budget and the Current Forecast, the savings estimates were understated by this amount.

The following table reflects the forecast and savings identified and presented at the April 28th Council meeting compared to the most recent updated forecast.

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Fund: 010 - General Fund	April 28 Presentation			May 12 Presentation		
	FISCAL YEAR 2019-20			FISCAL YEAR 2019-20		
	AMENDED BUDGET	FORECASTED BUDGET	VARIANCE FAV/(UNFAV)	AMENDED BUDGET	FORECASTED BUDGET	VARIANCE FAV/(UNFAV)
Beginning Fund Balance	\$ 5,700	\$ 5,700	\$ -	\$ 5,700	\$ 5,700	\$ -
Revenue:						
Revenues	16,200	14,967	(1,233)	16,200	14,967	(1,233)
Transfers-In	2,638	2,638	-	2,638	2,638	-
Total Revenues	18,838	17,605	(1,233)	18,838	17,605	(1,233)
Expenditures:						
Salaries & Benefits	11,533	11,112	420	11,533	11,112	420
CalPERS Prepayment	2,000	2,000	-	2,000	2,000	-
Services & Supplies	4,323	4,003	320	4,323	4,003	320
Debt Service	190	190	-	190	190	-
FCFA Contribution	2,346	2,060	286	2,346	2,060	286
Capital Outlay	131	131	-	131	131	-
Transfers Out	200	200	-	200	200	-
Expenditure Savings	-	-	-	(440)	-	(440)
Total Expenditures	20,723	19,697	1,026	20,283	19,697	586
Operating Increase/(Decrease)	\$ (1,885)	\$ (2,092)	\$ (207)	\$ (1,445)	\$ (2,092)	\$ (647)

As discussed at the April 28th City Council meeting, a Contingency Reserve of 5% is set aside to protect against unexpected or unforeseen losses. The plan at that time was to reduce the Contingency Reserve from 5% to 4%, adding an additional \$207,000 in funding. Reducing the Contingency Reserve another 2.1% would generate approximately \$440,000 and would close the budget gap.

ALTERNATIVES:

1. Discuss and consider utilizing additional Contingency Reserves to address the project FY 2019-20 budget shortfall;
2. Direct staff to provide more specific information at a later date;
3. Provide other direction to staff.

ADVANTAGES:

Utilizing additional Contingency Reserves will address the projected budget shortfall 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.

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