



# City of Emeryville

CALIFORNIA

## MEMORANDUM

**DATE:** September 15, 2020

**TO:** Christine Daniel, City Manager

**FROM:** Bill Zenoni, Interim Finance Director

**SUBJECT:** **Budget Strategies; Fiscal Year 2020-2021 and Beyond**

### RECOMMENDATION

Staff recommends that the City Council receive the Five Year Forecast and begin discussion of potential budget strategies to address the projected budget deficits in Fiscal Year 2020-2021 and beyond.

### BACKGROUND

On June 9, 2020 the City Council approved amendments to the Budgets for Fiscal Years 2019-2020 and 2020-2021. These amendments were necessitated by the economic shut-down resulting from the COVID-19 pandemic. As staff explained at that time, the City's core revenues—sales tax, transient occupancy tax and business license tax—were all deeply affected by the economic shock caused by the coronavirus. The shortfalls in the major revenue categories that staff predicted for FY 2019-2020 were mostly realized. However, staff also reduced expenditures sufficiently to avoid the need for use of the one-time funds that the Council had authorized to close any budget deficit. Accordingly, those one-time funds were not transferred at the close of the fiscal year.

Unfortunately, the revenue projections that staff provided in June for Fiscal Year 2020-2021 will not be realized. As staff explained at the time, the projections assumed reduced economic activity in the first quarter of the fiscal year, with activity increasing in the second quarter and a recovery by the December holidays. The projections did not anticipate that the economic shut-down would persist well into the first quarter (if not the second quarter) of the fiscal year, nor that travel and hotel occupancy would be as significantly affected as it has been. The projections also did not anticipate that many companies would transition to remote work for an extended period of time (including some permanently), affecting the thousands of employees who had previously commuted into Emeryville every day. While the projections did reduce the card room tax revenues by 50% for the fiscal year due to expected changes in gaming behavior, staff did not anticipate that the cardroom would remain fully closed well into the first quarter, if not beyond.

The City's primary revenue sources, Sales Tax, Business License Tax and Transient Occupancy Tax (TOT), are projected to decline by approximately \$10.4 million for FY 2020-2021 as compared to actual revenues received in FY 2018-2019.

	FY2018-2019- actual	FY2020-2021- projected	Difference
Sales Tax	\$8,653,789	\$7,333,610	\$(1,320,179)
Bus. License Tax	\$6,410,279	\$4,696,000	\$(1,714,279)
TOT	\$8,687,505	\$1,288,000	\$(7,399,505)
Total	\$23,751,573	\$13,317,610	\$(10,433,963)

For all of the reasons noted above, the revised revenue estimates provided in this report project an additional revenue shortfall for Fiscal Year 2020-2021 beyond the shortfall estimated in June, and further significant shortfalls in future fiscal years.

## DISCUSSION

### *Five Year Forecast*

This report provides a Five Year Forecast, with two scenarios: Scenario 1 Projected Growth and Scenario 2 Faster Growth. Given the near term uncertainty affecting all sectors of the economy, the magnitude of Bay Area unemployment and the likely long-term restructuring of sectors important to Emeryville such as retail and hospitality (restaurants and hotels), the Five Year Forecast projects significant deficits in both scenarios. The next section of this report identifies a number of potential strategies to address those deficits. The more quickly decisions are made about which strategies to implement, the more stability the City can achieve for the long-term.

The chart below summarizes the Five Year Forecasts for General Fund Revenues and Expenditures, with the two scenarios mentioned above: Scenario 1 Projected Growth and Scenario 2 Faster Growth. The expenditures are based on current expenditures with increases due to negotiated labor agreements, projected CalPERS pension cost increases, projected health care cost increases and normal cost increases in supplies/utilities/service contracts.

The details supporting the figures below are provided in Attachment A-Scenario 1 Projected Growth, and Attachment B-Scenario 2 Faster Growth. The fundamental cause of the projected deficits is the severe decrease in revenues described above. Coupled with the anticipated increase in expenditures, the forecast reflects ongoing structural deficits ranging from \$11 million to \$16 million per year, assuming no new revenue and no changes in expenditures.

		FY2020-21	FY2021-22	FY2022-23	FY2023-24	FY2024-25
Revenue	Scenario 1	\$33,903,410	\$35,598,989	\$36,241,887	\$37,382,627	\$38,547,807
	Scenario 2	\$34,403,410	\$37,236,989	\$39,240,887	\$41,773,627	\$44,363,807
Expenditures		\$45,679,031	\$48,593,383	\$50,790,932	\$52,987,353	\$55,327,143
Deficit	Scenario 1	<b>(\$11,775,621)</b>	<b>(\$12,994,394)</b>	<b>(\$14,549,045)</b>	<b>(\$15,604,726)</b>	<b>(\$16,779,336)</b>
	Scenario 2	<b>(\$11,275,621)</b>	<b>(\$11,356,394)</b>	<b>(\$11,550,045)</b>	<b>(\$11,213,726)</b>	<b>(\$10,963,336)</b>

### *Budget Strategies*

In FY 2020-2021 approximately one-half of the projected revenue shortfall will be offset by the previously approved use of one-time funds, primarily from accumulated commercial transfer tax, and suspending policies such as transfers to the pension reserve and the litigation fund. However, given that a full economic recovery will not restore City revenues during FY 2020-21, additional strategies are needed to cover expenses for the current fiscal year. And even more extensive strategies are needed for future fiscal years.

Staff has identified several potential strategies the City Council may consider in addressing the projected deficits. The list below is offered as a starting point for discussion. There is no priority to the order of the list. However, the ideas are broken down into categories of one-time revenue, ongoing cost savings and recurring revenue. While the City is fortunate to have robust reserves and a healthy General Fund unassigned balance, both of those sources are one-time funds and provide only short-term relief from the lack of recurring revenue. Nevertheless, that short term relief offers the opportunity to develop a strategy to align expenditures with projected revenues and develop new recurring revenue sources.

#### **One Time Revenue**

1. Unassigned Fund Balance draw down
2. Economic Uncertainty Reserve draw down
3. PERS Liability Fund Reserve draw down
4. Disaster Fund draw down

#### **Ongoing Cost Savings**

1. Freeze vacant positions
2. Shift existing position(s) to appropriate non-General Fund sources
3. Cost Allocation Plan to ensure General Fund recovers appropriate costs from Other Funds

4. Reduce / Reorganize City Programs
5. Shift eligible expenses to 1/4 cent sales tax
6. Labor Negotiations

### **Ongoing Revenue**

1. Tax Measure(s)
2. Assessment District(s)

### *Timeline and Next Steps*

Moving forward, staff proposes the following schedule for the City Council's consideration of budget strategies:

- **September 15, 2020:** City Council Study Session—Review Five Year Forecast; Discuss Budget strategies
- **October 2020:** Budget Advisory Committee and Budget & Governance Committee Joint Meeting
- **October 20, 2020:** City Council Regular Meeting—Approve short-term budget strategies for FY 2020-2021. Prioritize mid-term and long-term Budget strategies for further research and report back in January 2021;
- **December 10, 2020:** Regular meetings of the Budget & Governance Committee and the Budget Advisory Committee
- **January 2021:** City Council Study Session—Review updated Five Year Forecast; Direction to staff to implement selected medium- and long-term budget strategies
- **February, March 2021:** Budget & Governance and Budget Advisory Committee meetings—Review of projections for the Fiscal Years 2021-22 through 2022-23 budget.
- **April 2021:** City Council Study Session—Review updated Five Year Forecast and status of implementation of medium / long term budget strategies and specific projections for Fiscal Years 2021-22 through 2022-23 budgets.
- **May 2021:** City Council Regular Meeting—Master Fee Schedule Update
- **June 2021:** City Council Regular Meeting: Consideration and approval of the Fiscal Years 2021-22 through 2022-23 budget.
- **September 2021:** Review updated Five Year Forecast and status of implementation of medium / long term budget strategies.

To assist with community information and engagement, staff will establish a Budget page on the City's website dedicated to this fiscal review process. This will make it easier for the City Council and community to access financial information, reports to Committees and Council, and information staff develops specific to a particular budget strategy.

## **FISCAL IMPACT**

The Five Year Forecast estimates the projected deficits if new revenue is not identified or expenditures are not modified. As budget strategies are selected and implemented, the Forecast will be revised to reflect the impacts of each strategy.

## **STAFF COMMUNICATION WITH THE PUBLIC**

Staff presented this report to the Budget & Governance Committee at its special meeting on September 3, 2020.

## **CONCLUSION**

Staff recommends that the City Council receive the Five Year Forecast and begin discussion of potential budget strategies to address the projected budget deficits.

**PREPARED BY:** Bill Zenoni, Interim Finance Director

## **APPROVED AND FORWARDED TO THE CITY COUNCIL OF THE CITY OF EMERYVILLE:**



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Christine Daniel, City Manager

## **Attachments:**

- A. Five Year Forecast Scenario 1, Projected Growth
- B. Five Year Forecast Scenario 2, Faster Growth