



# City of Emeryville

CALIFORNIA

## MEMORANDUM

**DATE:** May 4, 2021  
**TO:** Christine Daniel, City Manager  
**FROM:** Brad Farmer, Finance Director  
**SUBJECT:** Discussion of Preliminary Budget FY 2021-2022

### RECOMMENDATION

Staff recommends the City Council review and provide direction on the preliminary Fiscal Year (FY) 2021-2022 budget.

### BACKGROUND

The City of Emeryville, along with the rest of the world, is beginning to recover from the lengthy COVID-19 pandemic and related economic shut-down. Unfortunately, the length of that recovery remains uncertain. The City's primary revenue streams (sales tax, hotel tax, business license tax and cardroom tax), were all negatively affected by the pandemic. While all are recovering, industries are reacting differently to the recovery and each will take a different amount of time. The City must plan accordingly and make prudent fiscal decisions about how to best use its resources to sustain services for the long term. The proposed Budget for Fiscal Year 2021-2022 represents the thoughtful work of the Budget & Governance and Budget Advisory Committees over the last year, as well as staff throughout City Departments who prepared careful and reasonable expenditure budgets that maintain services while respecting resource constraints.

The proposed Fiscal Year 2021-2022 Budget represents a departure from prior City budgets in several significant ways. First, this is a single year budget. In the past, the City has adopted budgets in two-year cycles to provide stability in the budgetary process. However, given the uncertainties surrounding the economic recovery, the Budget & Governance Committee supported two single year budgets (Fiscal Year 2021-2022, and 2022-2023) for the next fiscal cycle so that the City could have more time to assess the vigor of the recovery before making significant budget modifications. Second, this Budget relies on several one-time strategies to close the projected gap between revenues and expenditures in Fiscal Year 2021-2022.

Additionally, this Budget aligns with the focused approach on major City projects articulated by the City Council earlier this year. At a January 19, 2021 Study Session, the City Council reviewed its goals and priority projects and discussed its focus for the next budget cycle. Given the fiscal constraints resulting from the pandemic, Councilmembers indicated their interest in completing major projects that were underway and adding only two new focus areas. What follows are the goals and priority projects for Fiscal Year 2021-2022:

1. Complete South Bayfront Bridge and Horton Landing Park
2. Advance Corp Yard Remediation
3. Complete 40th Street Redesign
4. Complete Art Center
7. Commence construction of Rail Safety / Quiet Zones
8. Develop Revenue Generating Ballot Measures for 2022 (New)
9. Develop a plan to electricity the City's vehicle fleet (New)

## DISCUSSION

At the January 19, 2021 meeting, staff presented to the Council the Budget and Capital Improvement Program Strategies. This presentation outlined some options to close the budget shortfall the City is currently facing. Even with these strategies, the City's General Fund was still facing a shortfall for FY 2021-22. The proposed budget utilizes both one-time budget solutions, including \$6.1 million of unassigned fund balance as well as cost reductions, to close the shortfall.

### Summary of the General Fund Revenues and Expenses

	YE Estimate FY 2020-21*	Proposed FY 2021-22**	Difference	Percent Change
Revenues	\$ 41,142,965	\$ 38,599,065	\$ (2,543,900)	-6.2%
Expenses	43,161,784	44,722,189	1,560,405	3.6%
Net	<u>\$ (2,018,819)</u>	<u>\$ (6,123,124)</u>	<u>\$ (4,104,305)</u>	

Projected Use of Fund Balance    \$ 2,018,819    \$ 6,123,124

\* Revenues include \$6.3 million in one-time funds

\*\* No use of Economic Reserves used and expected ending General Fund - Fund Balance is \$2 million

The City will continue to face long-term financial impacts resulting from the economic slowdown and the lingering effects of the COVID-19 pandemic. In addition to reduced revenues the City continues to be adversely affected by the increased funding requirements for pension obligations resulting from previously enhanced benefits and lower investment earning on the pension plans.

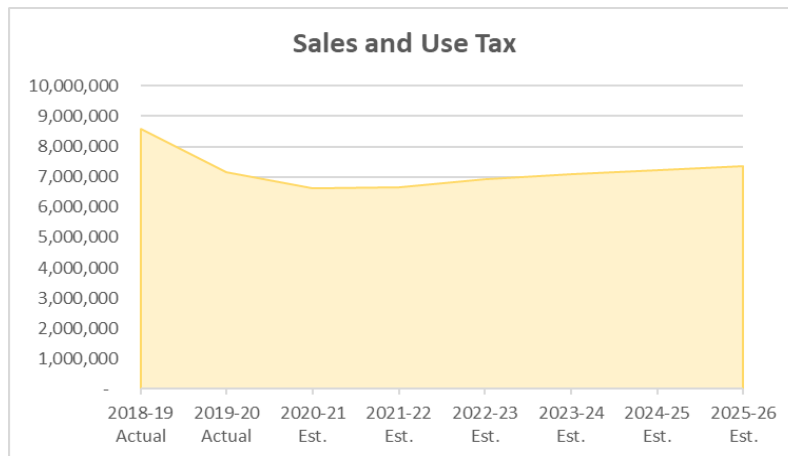
## Revenue Impacts

As the world recovers from the hard felt economic slowdown resulting from the global pandemic, the City's revenues will continue to be negatively affected until consumer confidence returns and the economy recovers. Sales and Use, Business Licenses,

Cardroom, and Transient Occupancy taxes have and will continue to be impacted the most.

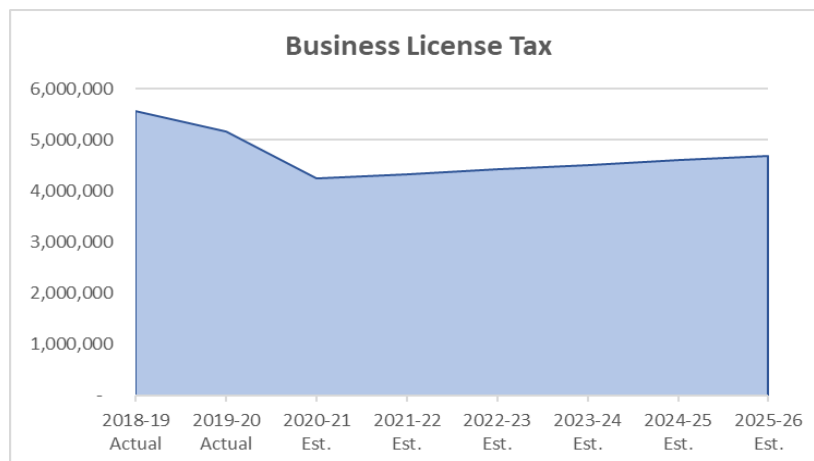
### Sales and Use Tax

The Sales and Use Tax received by the City is dependent upon consumer confidence and the reopening of retail establishments. The impact of the pandemic has been seen by the 17% reduction of revenues in FY 2019-20 followed by a projected 7% reduction for FY 2020-21. The current projections as received by the City's outside consultant shows a flat year for FY 2021-22 followed by moderate growth over the next few years.



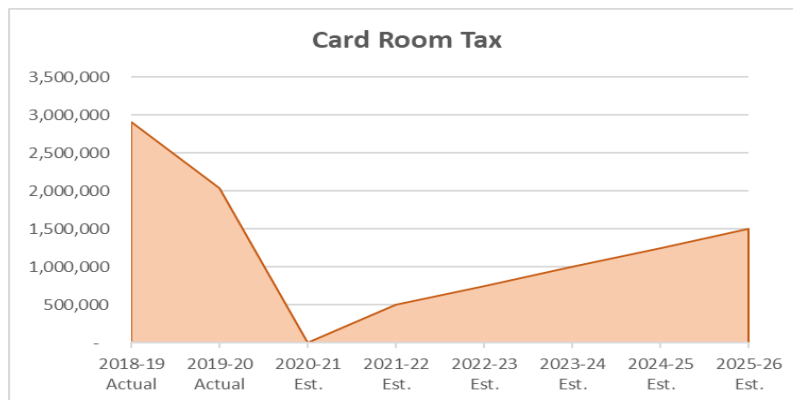
### Business License Tax

Business License Taxes received reflects the health of the business community in the City. As illustrated in the below chart, FY 2019-20 saw a reduction of 7% in business license revenue followed by an 18% reduction in FY 2020-21. As the economy starts to reopen, we are assuming a growth factor of 2% for the next few years.



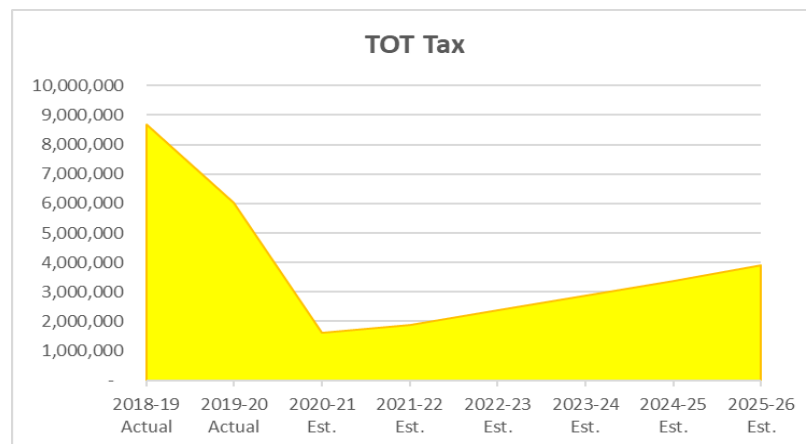
### Card Room Tax

The revenue received through the Card Room Tax reduced 30% in FY 2019-20 as compared to FY 2018-19. Staff has projected a 100% reduction for FY 2020-21 with the restrictions that have been in place during most of the year. Without knowledge of the level of participation of consumers during a recovery, staff has projected a moderate recovery for the Card Room Tax and will update the Council as additional information is learned.



### Transient Occupancy Tax

The revenues received from the hotel industry referred to as Transient Occupancy Tax (TOT) was and continues to be the hardest hit revenue source for the City. With travel restrictions in place and the reduction in travel overall, the City's hotel industry has been greatly impacted. The pandemic has reduced both personal and corporate travel overall across the nation. The City saw a 31% reduction in TOT in FY 2019-20 compared to FY 2018-19 and we continued to see reduced TOT revenues in FY 2020-21, projected to be down 73% from the already reduced FY 2019-20 year. We are hopeful the economy recovers, and travel resumes but are cautious about the length of time for a full recovery based upon what we currently know, and from outside consultants' projections as shown in the graph below.



## Expenditure Strategies

At the beginning of the budget process, Department Heads were asked to reduce operating costs by 10 percent, where possible, to help close the shortfall being faced. In addition to those reductions, the following strategies were implemented in the proposed budget:

1. Utilizing \$1 million of the 115 Pension trust to cover current costs,
2. Utilizing \$1.5 million of Measure F funds to cover the General Fund costs associated with the Emeryville Child Development Center,
3. Maintaining vacancies across multiple departments,
4. Deferring transfers into the Litigation Fund and pushing out some vehicle replacement costs, and
5. Maintaining the current allocation for the Residual Property Tax Reserve and Use Policy, which was altered for the fiscal year budgets 2019-20 and 2020-2021, as follows:

	Allocation per Policy	Allocation effective July 1, 2020	Allocation used for FY 2021-22
General Fund 101	26.0%	50.0%	50.0%
General Capital Improvement Fund 475	50.0%	47.5%	22.5%
Affordable Housing Fund 299	20.0%	20.0%	20.0%
Public Art Fund 243	0.0%	2.5%	2.5%
Economic Development Fund 202	5.0%	5.0%	5.0%
	100%	100%	100%

## **Overview of Funds other than the General Fund**

The other funds of the City are more restrictive due to the restriction of the revenues associated with them. However, where possible staff was asked to reduce cost as outlined above to ensure their long-term viability. All other funds are balanced, except for the Successor Agency for the FY 2021-22 as presented on the attached Budget Summary. The Successor Agency will have an overall negative fund balance until the debt is retired as the associated property taxes will be assessed in future years to offset the negative balances presented.

With regard to the City's adopted Capital Improvement Program (2019-2024), the proposed budget appropriates annually received funding for capital projects, such as Measure B and BB sales tax revenue and state gas tax funds. However as noted above, no new capital projects are proposed for FY 2021-2022. Rather, the budget is focused on completing major projects that are either underway, or not yet commenced but already funded. The capital appropriations will be included with the proposed operating budget for Council consideration in June.

## **Reserve Requirement**

One of the budget strategies presented in January was utilizing \$3 million in Economic Reserves. The proposed budget does not utilize this option, instead relying on use of unassigned General Fund balance. Accordingly, the overall reserve requirements established by Council remain intact, meeting the 50% of budgeted expenditures policy.

## **COMMITTEE RECOMENDATION**

Staff will present the attached budget overview to both the Budget and Governance and the Budget Advisory Committees on April 30, 2021. Comments or recommendations will be presented with the presentation at the May 4, 2021 Council meeting.

## **STAFF COMMUNICATION WITH THE PUBLIC**

None to date for this report.

## **CONCLUSION**

Staff will work with both the Budget and Governance Committee and the Budget Advisory Committee to refine and implement changes to the current budget to present the proposed balanced budget for FY 2021-22.

Staff requests that Council provide direction on the preliminary Fiscal Year (FY) 2021-2022 budget. A final budget will be brought to the City Council in June for approval.

**PREPARED BY:** Brad Farmer, Finance Director

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



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Christine Daniel, City Manager

**ATTACHMENTS**

- All Funds Budget Summary