



Legislation Text

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City Council Agenda

Memo to: Manteca City Council
From: Miranda Lutzow, City Manager
Prepared by: Toni Lundgren, Acting Deputy Director of Finance
Date: June 16, 2020
Subject: Provisional Operational Budget for Fiscal Year 2020-21

Adopt a resolution approving the attached Provisional Operational Budget for the City of Manteca for Fiscal Year 2020-21.

Background:

Introduction

This proposed budget has been compiled during unprecedented times, due in part not only the COVID-19 pandemic, but also that the City has a number of key staff vacancies in our Finance Department which together has created a number of organizational and operational issues. In addition, the State and County's declaration of a local emergency due to a global pandemic caused by COVID-19 virus and subsequent Shelter-in-Place Order, has disrupted our local economy which has made forecasting local government revenues particularly challenging. Accordingly, for these reasons, staff is presenting a provisional operational budget for City Council consideration for the fiscal year period commencing July 1, 2020.

The concept of a provisional operational budget is intended to act as a temporary means designed to allow staff to continue City operations while simultaneously, providing time for the City to not only hire key finance-related personnel but also be in a better position to assess the financial impacts associated with the current pandemic later this calendar year. By that time, staff should be better able to fully understand the overall economic impact of the COVID-19 pandemic and make recommendations to Council for possible amendments and re-adoption of the budget.

Provisional budgets are fairly common in the public sector; albeit, this will be the first provisional budget submitted to the Manteca City Council in recent history. Staff feel that given the unprecedented circumstances before us, submitting a provisional budget is an appropriate measure to take at this time. The provisional budget will base next year's operational budget on this year's known revenues and appropriations (with some minor adjustments). While the provisional operating budget is technically for the fiscal year beginning July 1, 2020 through June 30, 2021, as mentioned previously, staff intends to bring back a more thorough and comprehensive budget document in

January 2021 for City Council consideration.

Executive Summary

As the City Council is aware, back in March 2020, the County of San Joaquin declared a State of Local Emergency and a Shelter-in-Place Order was instituted thereby creating an unprecedented negative economic impact to our local economy. The economic impacts from COVID-19 has reduced local sales tax revenue, transient occupancy taxes (TOT), and fees for services that the City provides.

The goal of this next year's budget is to maintain service levels and maintain required reserve balances while continuing to plan for the future. Unfortunately, revenue growth is decreasing due to the lingering effects of the COVID-19 pandemic while various cost factors, such as previously authorized wage increases, as well as healthcare premium increases and some other associated operational costs (as discussed later in this report), have increased.

With regard to Fiscal Year 2020-21, General Fund Revenues are projected to be \$47,752,680 with General Fund expenditure appropriations of \$48,117,939 with additional appropriations for the Capital Improvement Program in the amount of \$891,339 and a recommended retirement buyout program for \$1,000,000 which totals \$50,009,278. The resulting deficit of \$2,256,598 will be appropriated from the unassigned reserve fund balance.

Citywide appropriations for all other funds (excluding the General Fund) in Fiscal Year 2020-21 total \$132,325,940 with projected revenues totaling \$134,503,612. The five-year plan detailing capital projects supported by these appropriations will be provided to the City Council at a later date as part of the upcoming FY 2021-2025 Capital Improvement Plan.

Economic Conditions

Since a national emergency was declared in the United States on March 13, 2020, more than 22 million Americans have filed for unemployment and as of this writing, the national unemployment rate is over 13%. The fallout from COVID-19 has resulted in a sudden contraction of the labor supply, restricted access to many non-essential businesses, and diminished consumer confidence. These factors have led to a sharp decline in consumer spending, especially in the service sector industries, which involve physical interactions such as retail trade, leisure, hospitality, and recreational services. In addition, economic uncertainty has led individuals to forgo the purchases of large, discretionary retail goods and services such as automobiles and large appliances.

In the early stages of this crisis, the Federal Government passed the Coronavirus Aid, Relief and Economic Security (CARES) Act. The CARES Act focused on addressing the economic impact of COVID-19 by quickly deploying over \$2 trillion in funding to government, impacted businesses, and individuals by expanding unemployment benefits, providing stimulus checks to individuals, and funneling hundreds of billions of dollars toward small businesses to keep workers on their payrolls, among other steps. Unfortunately, much of this help is set to expire in a couple of months pending further action. The intent of these fiscal stimulus programs is to minimize the likelihood of a prolonged economic recession and the amount of federal funding to trickle down to the City of Manteca is still uncertain at this time.

The reaction from consumers and businesses to the outbreak of COVID-19 caused a massive decrease in spending on goods and services. The national and state response, combined with the

uncertainty of how long the presence of the virus will last, will no doubt disrupt the local economy, making forecasting local government revenues particularly challenging.

With businesses shutting down and continuing to struggle, we expect this will have continued negative impacts on our General Fund revenues. Sizable reductions in sales tax and transient occupancy tax (TOT) revenues, as well as other General Fund revenues, (e.g., property transfer tax, licenses and charges for services), have been seen throughout the State and Manteca is no exception. Consequently, as a result of the pandemic, local consumer confidence has been shaken and it may take time for our local economy to fully get back to previous discretionary spending habits, dining-in opportunities, and leisure travel.

Proposed General Fund Fiscal Year 2020-21 Budget

As mentioned previously, the proposed General Fund Fiscal Year 2020-21 budget is being submitted for City Council consideration as a provisional operating budget at this time. City staff will be reassessing the City's financial condition later this calendar year and bring back amendments to this provisional budget.

General Fund revenue projections for Fiscal Year 2020-21 were estimated using Fiscal Year 2019-20 projected receipts as the basis after working with the City's revenue consultant, HdL Companies and taking into consideration the anticipated economic impacts associated with the COVID-19 pandemic.

The City's General Fund operating revenue consists primarily of sales and property taxes. These two revenue sources generate over 67% of total General Fund revenues. Along with transient occupancy tax (TOT), these economy-driven revenue sources represent 72% of total General Fund revenues with sales tax and TOT being two of the most volatile economy-driven revenues. Economic factors can contribute to wide swings in these revenue sources as evidenced, not only by the Great Recession a decade ago, but also the recent COVID-19 pandemic.

Sales tax, which accounts for 30% of General Fund revenues, is projected at \$14.2 million in Fiscal Year 2020-21, up from \$12.0 million in Fiscal Year 2019-20. Property tax-related revenues, which account for 37% of all General Fund revenues are projected to remain stagnant from the original budget of \$17.8 million in Fiscal Year 2019-20. Year-end receipts from TOT are projected to come in short of budgeted expectation in 2019-20 by approximately \$393,000, however, due to the anticipated opening of the Great Wolf Lodge later this summer, projected TOT receipts for Fiscal Year 2020-21 are anticipated to be approximately \$1,248,835 more than budgeted this fiscal year (2019-20), a 95% increase.

Overall, revenues for the General Fund in Fiscal Year 2020-21 are estimated at \$47,752,680 while proposed General Fund appropriations of \$48,117,939, with additional appropriations for the Capital Improvement Program in the amount of \$891,339 and a recommended retirement buyout program for \$1,000,000, totaling \$50,009,278. This projected spend will result in a projected budget deficit of approximately \$2,256,598 in Fiscal Year 2020-21.

As indicated earlier, this proposed provisional budget has been designed to set appropriations in Fiscal Year 2020-21 based on the Fiscal Year 2019-20 budget with the following adjustments:

- Increased costs in all departments include anticipated merit increases, previously negotiated salary and benefit increases, as well as increased pension-related expenses;
- Increased costs due to election year cycle;

- Increase in legal services.

All Other Funds

Total revenues for All Other Funds (excluding the General Fund) have been based primarily on Fiscal Year 2019-20 projected receipts with some minor exceptions as indicated below. Overall, total revenues for All Other Funds in Fiscal Year 2020-21 are projected to be \$134,503,612. The anticipated decrease is due in large part to the projected decline in sales tax receipts associated with Fund 320 - the Public Safety sales tax measure passed in 2006. Anticipated Public Safety sales tax receipts for Fiscal Year 2019-20 are projected to be \$7,305,442 while appropriations are proposed to be \$7,214,583, resulting in a decline of \$628,760 in this fund.

For the Future

As mentioned previously, staff intend to bring back for City Council consideration, a more thorough and comprehensive budget document at the beginning of the new calendar year once staff is in a better position to fully understand the overall economic impact of the COVID-19 pandemic and, thereby, make the appropriate amendment recommendations to the City Council for re-adoption of the budget. Until then, it is recommended that the City Council open public comment and hear testimony from the public on proposed Fiscal Year 2020-21 Budget and then, after Council deliberation, adopt the attached Budget Resolution (with amendments if applicable).

Fiscal Impact:

Adoption of the City of Manteca's Provisional Operating Budget for Fiscal Year 2020-21 results in the below summarized amounts:

	General Fund	All Other Funds
Revenues	\$47,752,680	\$134,503,612
Appropriations	\$50,009,278	\$132,325,940
Surplus/Deficit	(\$2,256,598)	\$2,177,672

As projected, there will be adequate resources to cover all proposed expenditures as the General Fund (unaudited) unassigned and unrestricted fund balance as of June 30, 2020, is estimated to be \$8,993,484, which is sufficient to absorb anticipated scheduled salary increases, as well as already negotiated salary and benefit increases.

Documents Attached:

1. Attachment 1: Budget Presentation Slideshow
2. Attachment 2: Budget Resolution Fiscal Year 2020-21
3. Attachment 3: General Fund Revenues by Category and Source
4. Attachment 4: General Fund Appropriations & Expenditures
5. Attachment 5: Other Revenues by Major Category and Source
6. Attachment 6: All Other Fund Appropriations & Expenditures by Classification
7. Attachment 7: Position Allocation by Department
8. Attachment 8: Budget Adjustments Increases and Decreases
9. Attachment 9: CIP Projects and Appropriations