



AGENCY: City Council/MID
MEETING DATE: September 14, 2020
DEPARTMENT: City Manager
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AGENDA ITEM SUMMARY

TITLE:

Receive Report and Consider Adoption of City Council Resolution Adopting Budget Amendment 2021-03 Revising Revenue Projections, Increasing Furloughed Staff to Full-time, Restoring Police Department Premiums and Adjusting Selected Expenditure Budgets

ISSUE:

The COVID-19 pandemic, along with staff reductions and layoffs, interrupted the normal FY 2020-21 annual budget process. Further, projecting the revenue impacts of the economic shutdown was a combination of revenue analysis, conservative direction from City Council and just plain guesswork. On June 29, 2020, the Fort Bragg City Council adopted a budget with the understanding that it would be updated and revised as the year progressed and as the longer term impacts from the pandemic were better understood.

The Council has already adopted two budget amendments for FY 2020-21 and staff is recommending adoption of a third budget amendment.

ANALYSIS:

On April 6, 2020, staff presented a COVID-19 emergency financial report. The report provided three big picture scenarios: best case, middle of the road, and worst case. The City Council provided feedback to staff to take a more conservative approach to the FY 19-20 financial projections and the FY 20-21 budget and to return with a plan to reduce the operating budget and staffing levels.

On April 20, 2020, at a Special City Council meeting, staff presented revised COVID-19 projections and outlined a plan to reduce the FY 20-21 General Fund Budget by \$1.4 Million. The reductions included freezing open positions, eliminating all seasonal staff, placing a hold on AA/AB funding allocations and additional layoffs. Layoffs and furloughs were implemented at the end of April and accounted for the largest portion of the budget reduction. In addition to the staffing cuts, the Fort Bragg Police Association voluntarily gave up premium pays worth approximately \$88k for a period of one year in exchange for a small increase in vacation accruals. In May, the City Council and the Mendocino Coast Parks and Recreation Board agreed that the CV Starr Community Center may need to remain closed through the fall for financial and pandemic related reasons. Both entities agreed to revisit that decision at the end of September when more detailed sales tax information would likely be available. The Council may want to considering scheduling a special joint meeting in the first part of October.

The budget adopted by City Council on June 29, 2020 included the requested reductions but lacked the details and effort of prior years. The diversion of resources to COVID-19, including interim reporting and projections, and staff reductions resulted in a condensed

budget document with many unknowns as the country and the world continued into a unique economic scenario with little or no guidance. Staff agreed to provide regular financial updates to City Council as more information about Transient Occupancy Tax (TOT) and Sales Tax developed. TOT and Sales Tax revenues account for approximately 48% of General Fund revenues.

In March, the City agreed to allow hotels and lodging establishments to postpone payment and reporting of the TOT until July 1st, without penalties or interest, in an effort to help support those businesses. The State of California extended similar accommodations to businesses paying sales and use taxes. As a result, information on the financial impacts of the pandemic was limited through the end of the fiscal year. Adding to the challenges of predicting revenue in Fort Bragg was the uncertainty surrounding when businesses such as the hotels would be allowed to accommodate tourists and not just essential workers under the Shelter-in-Place Orders. As presented in the chart below, TOT revenues have performed better than projected back in April and as a result, projections for FY 20-21 have been revised upward.

| | 4-20-20 Projections | 9-5-20 Actual and Revised Projections | Change in \$ | Change in % |
|-----------|---------------------|---------------------------------------|--------------|-------------|
| January | \$ 119,630 | \$ 119,630 | \$ - | 0% |
| February | 107,000 | 161,216 | 54,216 | 51% |
| March | 69,000 | 95,244 | 26,244 | 38% |
| April | 14,000 | 19,551 | 5,551 | 40% |
| May | 23,000 | 34,812 | 11,812 | 51% |
| June | 115,000 | 182,941 | 67,941 | 59% |
| July | 174,000 | 348,760 | 174,760 | 100% |
| August | 152,000 | 304,000 | 152,000 | 100% |
| September | 153,000 | 229,000 | 76,000 | 50% |
| October | 126,000 | 168,000 | 42,000 | 33% |
| November | 121,000 | 138,000 | 17,000 | 14% |
| December | 103,000 | 103,000 | - | 0% |

Note: The chart reflects a calendar year, which includes the last six months of FY 19-20 and the first six months of FY 20-21.

Sales Tax Revenue has also performed better than projected in April. Because the State collects the Sales Tax, payment and details can lag several months. The City has received all payments for FY 2019-20, but not the details on taxpayers or industries. The chart below provides a comparison of the one percent General Fund Sales Tax Revenue.

| | FY 18-19 Audited | FY 19-20 Budget | FY 19-20 Revised | FY 19-20 Actual | \$ Change | % Change |
|-----------|------------------|-----------------|------------------|-----------------|------------|----------|
| Sales Tax | \$ 1,728,222 | \$ 1,921,792 | \$ 1,490,477 | \$ 1,774,138 | \$ 283,661 | 19% |

Based on the updated revenue information that is now available, staff has revised projections for the year ending 6-30-2020 and for the current fiscal year. The chart below

incorporates the updated actual revenue figures above plus revised figures for TOT and sales tax for FY 20-21, and the other proposed budget amendments incorporated into the Budget Amendment Resolution attached.

| | Projected Fund Balance 06/30/2020 | Revenue | Expenditures | Projected Fund Balance 06/30/21 |
|-------------------------------|--------------------------------------|--------------|--------------|---------------------------------|
| General Fund Adopted 06/29/20 | \$ 1,935,643 | \$ 7,933,643 | \$ 8,282,469 | \$ 1,586,816 |
| TOT Above Estimates | 165,764 | 430,000 | | 595,764 |
| Sales Tax Above Estimates | 283,661 | 179,500 | | 463,161 |
| CARES Act Allocation | | 91,702 | | 91,702 |
| Prior Net Expenditure | | | (68,416) | 68,416 |
| Leave Accrual Cashouts | | | 57,612 | (57,612) |
| Add. Grant Reim. Staff Time | | 115,226 | | 115,226 |
| Return Furloughed Staff 100% | | | 67,642 | (67,642) |
| Reinstate Police Premium Pays | | | 66,750 | (66,750) |
| Updated Financial Projections | \$ 2,385,068 | \$ 8,750,071 | \$ 8,406,057 | \$ 2,729,081 |

As set forth in the chart above, staff is currently projecting an operating surplus of \$344k for the General Fund and a June 30, 2021 ending fund balance of \$2.7 Million instead of the April, 2020 projection of \$1.6 Million. Included in Proposed Budget Amendment No. 2021-03 is a transfer of \$10,000 in the City Council Department's budget from Election Costs to Professional Services to provide funds for support of the Name Change Citizen Committee and if Council desires, support for the Community Garden, scheduled for discussion earlier in tonight's agenda. Also proposed is returning the five remaining furloughed City Hall employees to full-time and a reinstatement of the Police Department premium pays as of October 1, 2020.

Twelve employees were originally furloughed to 50% or 75% of full-time hours. In mid-June, the Senior Planner was reinstated to full time to handle the increase in development permits with the understanding that 20 or more hours would be charged to developer accounts. When the Public Works Director retired at the end of June, the Assistant Director was promoted to Director and the Assistant City Engineer was promoted to Assistant Director. The Assistant City Engineer position, which was furloughed to 30 hours a week, was not replaced and the position frozen. The City Clerk was returned to full-time in July in order to assist with the Tenant-Based Rental Assistance program and the additional hours are reimbursed by the grant. Three Finance Department staff were transitioned back to full time in August, after the Finance Director, who was also working reduced hours resigned and was not replaced.

Restoring furloughed staff to full time and reinstating the Police Department premium pays will help staff morale. With the addition of the City's water emergency, surrounding wild fires, increased tourism, year-end financial closing and audit, anticipated grant funding and programs and the ongoing COVID-19 pandemic, there is more than enough work to fill the additional 60 staff hours. Even with restoring the furloughed hours, City-wide staff hours are 11% lower than one year before and 13% lower than three years ago. City Hall staffing will be 15% (once restored) below the prior year and 24% lower than three years ago.

RECOMMENDED ACTION:

Adopt Resolution approving Budget Amendment No. 2021-03.

ALTERNATIVE ACTION(S):

1. Do not adopt Resolution.
2. Adopt Resolution with City Council directed modifications.
3. Provide staff further direction.

FISCAL IMPACT:

The revised TOT and Sales Tax revenue numbers for FY 20-21, plus additional grant reimbursements and CARES Act funding increase General Fund revenues above original budget by \$816,428. The revised revenue numbers for FY 19-20 increase revenues above projections by \$449,425 dollars. The total proposed expenditures increase General Fund expenses by \$123,588. Overall, current projections anticipate a General Fund surplus of \$344,014 for FY 20-21.

GREENHOUSE GAS EMISSIONS IMPACT:

Adoption of the budget amendment by itself will not impact greenhouse gas emissions.

CONSISTENCY:

The proposed budget amendment is consistent with City Council direction to close the budget deficit in the General Fund and City Council budget priorities.

IMPLEMENTATION/TIMEFRAMES:

Budget amendments will be effective on adoption. If approved, reinstatement of furloughed employees and Police Department premium pays will take place the first pay period in October.

ATTACHMENTS:

1. Resolution

NOTIFICATION:

N/A