



AGENCY: City Council
MEETING DATE: April 6, 2020
DEPARTMENT: Finance/City Manager
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AGENDA ITEM SUMMARY

TITLE:
COVID-19 Emergency Financial Report Number 1

ISSUE:

As the Community and City Council are acutely aware, we are in the midst of a global pandemic. Although the current emergency is primarily medical, there is also a financial component which we will all have to navigate and weather in the months to come.

The City's usual budget process has been substantially disrupted with all departmental budget meetings cancelled. Instead, the budget will be developed via email. There is a chance that the annual budget workshop scheduled for May 14, 2020 will be conducted via teleconference and live streamed to the public rather than conducted in person. Further, due to the disruption, the budget document submitted in May might have to be simplified extensively compared to previous years' budgets.

In light of the circumstances, staff feels it is useful to provide interim financial reports to the Community and the Council. City staff acknowledges and sympathizes with all members of the community who are already feeling the financial impact of the emergency or who will feel the impact in the near future. This report, however, is not intended to address the impacts to individuals or the local economy but rather will focus specifically on the finances of the City of Fort Bragg as a governmental organization. Further, this report will focus only on the General Fund with additional reports concerning the Water, Wastewater and CV Starr Enterprises to be prepared and delivered at a future date.

ANALYSIS:

Q4 FY 2019/20

We have all entered a period of extraordinary financial uncertainty. Due to the current emergency conditions, it has become very difficult to estimate future revenues and the likelihood of our best estimate ending up being wrong has increased many fold. Still, it is important for the City to choose an assumption and develop a budget even if conditions are almost certain to change.

Staff believes that the most severe impacts to the City will be felt in the fourth quarter of Fiscal Year 2019/2020. The most likely impacts will be in the form of revenue losses with the two most likely revenue sources to be impacted being Transient Occupancy Tax (TOT) and Sales & Use Tax. In previous years the City has collected upwards of \$700k in TOT in the fourth quarter of the fiscal year. Staff is assuming a loss of more than half of that amount

or approximately \$360k. Staff is further assuming a loss of approximately \$200k in Sales & Use tax. In total, staff is now assuming fourth quarter revenue losses of \$560k. Once actual fourth quarter results have been tallied, this assumption very well may appear overly optimistic.

At the recently held Midyear budget review meeting, staff presented a likely year-end operating deficit of \$78k. With the additional revenue losses outlined above, staff is now projecting a likely operating deficit of approximately \$640k.

Staff has undertaken steps to offset the sizeable revenue losses with suspension of certain expenditures. Notably, travel and training will likely not occur in the current climate which will lead to savings. The largest savings however, will come at the expense of the Internal Service Funds. Suspended allocations and/or refunds from the ISFs to the General Fund are as follows:

- Facilities: \$330,611
- IT: \$169,427
- Fleet: \$127,415

Each of the three Internal Service Funds has sufficient fund balance to absorb the outlined revenue losses and/or refunds in the short term. Of course, spending down the balances of the Internal Service Funds is not ideal and will lead to deferral of many maintenance items; it will, however, help the City get through these difficult financial times.

After taking into account revenue losses, staff is projecting General Fund revenues for FY 2019/20 in the amount of \$9,017,094. Revenue losses have been offset by a reduction in funding for the Internal Service funds resulting in projected expenditures of \$9,017,094.

FY 2020/21 Assumptions and Outlook

In light of the COVID-19 medical emergency, shelter in place orders have been issued throughout the world. This makes the prospect of a financial recession almost a certainty. The City's sales tax consultant, Muni Services, provided City staff with the following three recession scenarios:

1. **Best Case:** "A temporary dip for about 3 to 4 months (over Q1 & Q2). Coronavirus is contained and stops expanding and the economy bounces back in Q3 (Calendar year). We should know more in the next month or so as to whether this is optimistic or not."
2. **Middle of the Road:** "We may see a mini-recession where there is a temporary dip in sales tax activity for the next 3 to 6 months, coronavirus is halted, but we don't really recover from the downturn and everything goes sluggish and flat for a year or two. There had been the prediction by some economists that we were heading for a flattening in a couple years anyway so we may just get there earlier than some predicted."

3. **Worst Case:** “Coronavirus spreads and the recession already has begun (we should have indications of this over the next few but months, but we won’t really know the full impact for another 3-6 months) - we should see about a quarter of the impacts in the current year then most of the impacts next fiscal year. The markets seem to be predicting this scenario, but whether this is a panic or a presage remains to be seen. Also, it should be noted that each recession has its own characteristics and business sectors impacted so our ‘typical’ recession based on historic averages may or may not reflect what might happen in an upcoming recession.”

City staff has opted to use the “middle of the road” scenario in developing the FY 2020/21 budget. In this scenario revenues grow a sluggish 1% rather than the previously projected 2.5%. As with the 4th quarter of FY 2019/20 the primary revenue reductions are projected to be seen in TOT and Sales and Use tax. Total revenues are projected at \$9.7M. The City’s appropriation request has yet to be fully developed but will attempt to balance with the projected revenues. Assuming this scenario, the City’s General Fund could possibly lose over 70% of its fund balance in the next five years.

An updated five-year projection has been attached to this report. The “what-if” scenarios continue to include a 3/8 cent sales tax. New scenarios include a permanent re-purposing of 45% of the Marketing & Promotions funds from Measure AA as well as each of the three recession scenarios outlined above.

RECOMMENDED ACTION:

None, this report is informational only.

ALTERNATIVE ACTION(S):

N/A.

FISCAL IMPACT:

See analysis.

CONSISTENCY:

N/A.

GREENHOUSE GAS EMISSIONS IMPACT:

N/A.

IMPLEMENTATION/TIMEFRAMES:

Additional emergency financial reports will be delivered as deemed necessary.

ATTACHMENTS:

High level 5-year projection

NOTIFICATION:

None.