



Staff Reports

File #: 133-2020, **Version:** 1

To: Honorable Mayor and Members of City Council

From: Bret Prebula, Finance Director

Prepared By: Jessie Gooch, Finance Analyst

TITLE:

Budget Workshop for FY 2020/21

RECOMMENDED ACTION:

Provide direction to staff regarding the proposed budget adjustments for fiscal year 2020/21, and schedule a public hearing on June 2, 2020 to receive public comment on the Fiscal Year 2020/21 Mid-Cycle Budget.

DISCUSSION:

The budget for Fiscal Year 2020/21 was adopted on June 18, 2019, as a part of the City's two-year budget cycle for fiscal years 2019/20 and 2020/21. The purpose of the Mid-Cycle review is to provide an update to the Council regarding revenue and expenditure trends, and to propose appropriate revisions to the fiscal year 2020/21 budget.

COVID-19 has affected numerous aspects of our work and personal lives. The COVID-19 pandemic has had an immediate and drastic impact on General Fund revenues. The City anticipates a \$10.5 million dollar shortfall in the current fiscal year (2019/20) and a \$15-\$20 million shortfall in fiscal year 2020/21. To provide some perspective, \$10 million dollars equals 10% of the City's total General Fund budget. The Executive Team has been working to identify one-time and ongoing cost reductions to balance both this fiscal year and next fiscal year's budgets.

The City Council has already made adjustments to address the shortfall in FY 2019/20. Council approved the following expenditure budget reductions:

- Reduced Civic Center Project by \$3.0 million
- Reduced Dwight Murray Plaza Project by \$1.6 million
- Reduced General Fund Department Operating Budgets by \$0.8 million

The Council additionally approved the potential transfer of Non-Recurring General Fund available fund balance at the end of FY 2019/20 to offset any remaining deficit at fiscal year-end. Current estimates assume that about \$5.0 million from the Non-Recurring General Fund will be needed.

The FY 2019/20 budget reductions were mostly one-time in nature due to the lack of time available between the COVID-19 revenue impact and the end of the fiscal year. Although this approach

balances the fiscal year budget it does not place the City in the best position moving into the next fiscal year as significant one-time budget reductions do not address the ongoing structural deficit.

On April 21, the City declared a Fiscal Emergency due to the COVID-19 pandemic. Shelter-in-place orders have substantially decreased the City's revenues and will continue to negatively impact the City for an indefinite period of time.

As outlined above, the City is currently anticipating decreases to General Fund revenue of \$15-\$20 million for FY21. Faced with one of the largest economic impacts in the City's history, it is important to balance ongoing and one-time expense reductions. Staff's goal was to create a 60% ongoing and a 40% one-time expense reduction split. The plan below is close to that goal. This strategy will assist in balancing budgets in future fiscal years as it is anticipated the General Fund will be in structural imbalance for a few years. In preparation, the Executive Team has put together a plan for substantial budget cuts to help offset the General Fund revenue decreases.

The current plan for the General Fund includes the following elements:

- Department operating budget reductions (approximately \$3.5 million)
- Freeze vacant positions (31 positions equaling about \$4.2 million)
- Layoffs (39 positions equaling about \$4.46 million)
- Reduce General Fund transfers to other funds (approximately \$1.6 million)
- Reduce Parks CIP project budgets and transfer budget to the General Fund (approximately \$1.5 million)
- Replace some of the General Fund contribution to the ERP project with Water Fund dollars (approximately \$0.8 million for the Utility Billing module)
- Remove the \$0.4 million allocation to Housing in the Non-Recurring General Fund
- Use the Parking Security Fund to offset the cost of the Parking Manager (approximately \$0.2 million)
- Additional restructuring and operational efficiencies (approximately \$2 million)
- Use of Emergency Reserves (\$1.5 million)

In total, this plan will cover approximately \$20 million of the \$15-20 million shortfall. These numbers are still being finalized, and we are seeking City Council input in order to finalize staff recommendations to be presented to the City Council for consideration on June 2, 2020. As outlined above, the only concessions that have been finalized at this time are reductions to the City Manager's contract, and suspension of the Executive Team's future Cost of Living Adjustment (COLA) as well as an additional 5% compensation reduction (net result is an 8% reduction in Executive Team compensation). While a few bargaining units have begun discussions related to compensation reductions, no bargaining units have reached an agreement with the City to date that will assist in balancing the City's FY 2020/21 budget shortfall.

The FY 2020/21 Mid-Cycle Budget will be brought to Council on June 2, 2020 for public hearing and Council feedback and approval. Staff anticipates the need to regularly report to Council throughout FY 2020/21 on the state of the budget and projects additional adjustments may be needed.

The above recommended reductions reflect an effort to maintain the following priorities, as much as possible, through this unprecedented time:

- A mindfulness of services to the residents and businesses of Napa as much as possible; realizing reductions to service delivery will need to occur
- Ensure the welfare of our employees as much as possible; City Leadership cut budget or used reserves equal to \$21 million between FY 2019/20 and FY 2020/21 before any discussions with labor groups occurred.
- Ensure the financial solvency of the City; the structural deficit must be addressed by more than one-time reductions.

As outlined by the League of California Cities, the significant and immediate loss of revenue has impacted all jurisdictions, most notably those cities that are more heavily reliant on sales tax and transient occupancy tax. Additionally, due to the unknown nature of the economic recovery along with the need to manage cash flow from the delayed and reduced revenue payments, creating a strategy to limit the use of reserves during the initial stages of this economic downturn will reduce the risk of requiring potential short term debt financing.

Staff will continue to evaluate the economy and local financial situation and will recommend adjustments as appropriate.

FINANCIAL IMPACTS:

None by this action. The purpose of the Budget Workshop is to provide the City Council with an overview of the plan to balance the budget for FY 2020/21, and an opportunity to request changes prior to the upcoming public hearings in June.

CEQA:

The Finance Director has determined that the Recommended Action described in this Agenda Report is not subject to CEQA, pursuant to CEQA Guidelines Section 15060(c).

DOCUMENTS ATTACHED:

ATCH 1 - Proposed FY 2020/21 General Fund Cost Saving Measures by Department

NOTIFICATION:

None