

City of Montclair

Fiscal Year 2020–21
Preliminary Budget Review
Tuesday, June 23, 2020
6:00 p.m.



Fiscal Year 2020-21

BUDGET PROCESS

Fiscal Year 2020–21 Budgeting Process

- ❑ This evening’s workshop provides an overview of the Proposed Budget for the City of Montclair for Fiscal Year 2020–21, with focus on the following:
 - Major fiscal challenges facing the City; and
 - Recommended solutions for City Council consideration.
- ❑ The budget preparation process includes the following steps:
 - Finance Department staff develop and refine revenue projections.
 - Department heads and their staff are provided with prior year amounts and formats for annual budget requests.
 - Departments prepare their requests for appropriations.
 - City Manager and Finance Department meet with Departments to review and adjust Department–level requests.*
 - The Proposed Budget document is finalized for City Council’s review and consideration.

*Due to COVID–19, the Fiscal Year 2020–21 review process was limited to personnel–related adjustments.

Fiscal Year 2020–21

PRODUCING A
BALANCED BUDGET

Fiscal Year 2020–21

Balancing the Budget

- The annual goal related to budget preparation:
 - Produce a budget where revenues equal or exceed appropriations:
 - The General Fund Operating Budget, as presented, has a net excess of General Fund Operating Appropriations over General Fund Revenues in the amount of \$1,182,134.
 - This shortfall in the General Fund Operating Budget is directly related to the continuing annual increases in the City's CalPERS pension rates and the drastic decline in sales and transactions and use tax revenue due to the COVID–19 pandemic.

Fiscal Year 2020–21 Balancing the Budget

During the Fiscal Year 2020–21 Budget preparation, the following three options emerged that would allow Estimated Sources to equal Estimated Uses:

- 1. Un-fund Vacant Positions (Hiring Freezes).** Un-fund (not remove from the budget) designated employee positions that are currently vacant.
 - A total of 32 vacant positions were unfunded which consists of 12 full-time, 4 part-time benefitted, and 16 part-time positions.
 - These vacant positions are distributed throughout the organization, and the positions and associated savings, including wages and benefits, are reflected in the following **Tables 1 thru 6**.

Fiscal Year 2020–21

Balancing the Budget

Table 1
Unfunded Positions
City Manager Department

| Position | General Fund | Gas Tax Fund | Sewer Fund |
|---------------------------------------|-----------------|--------------|----------------|
| Information Relations Officer (FT) | -85,305 | | |
| Customer Services Representative (FT) | -20,523 | | -38,113 |
| Accounting Specialist (FT) | -65,769 | | |
| Systems Specialist (PTB) | -55,291 | | |
| Total City Manager Department | -226,888 | | -38,113 |

Table 2
Unfunded Positions
Fire Department

| Position | General Fund | Gas Tax Fund | Sewer Fund |
|-------------------------------------|----------------|--------------|------------|
| Receptionist/Office Specialist (PT) | -38,079 | | |
| Total Fire Department | -38,079 | | |

Fiscal Year 2020–21

Balancing the Budget

Table 3
Unfunded Positions
Human Services Department

| Position | General Fund | Gas Tax Fund | Sewer Fund |
|--|-----------------|--------------|------------|
| Senior Citizens Supervisor (FT) | -82,766 | | |
| Medical Clinic Specialist (FT) | -65,004 | | |
| Facility Coordinator (PT) | -7,557 | | |
| Junior Intern (PT) | -11,336 | | |
| Junior Intern (PT) | -11,336 | | |
| Recreation Specialist (PT) | -16,032 | | |
| Recreation Specialist (PT) | -16,032 | | |
| Mini School Coordinator (PT) | -16,755 | | |
| Transportation Coordinator (PT) | -16,921 | | |
| Total Human Services Department | -243,739 | | |

Table 4
Unfunded Positions
Police Department

| Position | General Fund | Gas Tax Fund | Sewer Fund |
|--------------------------------|-----------------|--------------|------------|
| Police Sergeant (FT) | -140,897 | | |
| Police Officer (FT) | -101,172 | | |
| Police Dispatcher (FT) | -72,249 | | |
| Reserve Police Sergeant (PT) | -5,168 | | |
| Police Cadet (PT) | -15,674 | | |
| Police Cadet (PT) | -15,674 | | |
| Police Cadet (PT) | -15,674 | | |
| Total Police Department | -366,508 | | |

Fiscal Year 2020–21 Balancing the Budget

**Table 5
Unfunded Positions
Public Works Department**

| Position | General Fund | Gas Tax Fund | Sewer Fund |
|--------------------------------------|-----------------|----------------|----------------|
| Leadworker – Facilities (FT) | -78,484 | | |
| Administrative Technician (PTB) | -66,597 | | |
| Maintenance Worker (FT) | - | -45,870 | -15,290 |
| Maintenance Worker (FT) | -45,870 | | -15,290 |
| Maintenance Technician (PTB) | -52,918 | | -5,880 |
| Maintenance Technician (PTB) | -55,090 | | -6,121 |
| Graffiti Abatement Worker (PT) | -19,635 | | |
| Total Public Works Department | -318,594 | -45,870 | -42,581 |

**Table 6
Unfunded Positions
Community Development Department**

| Position | General Fund | Gas Tax Fund | Sewer Fund |
|--|----------------|--------------|------------|
| Code Enforcement Officer (FT) | -81,831 | | |
| Reserve Code Enforcement Officer (PT) | -3,875 | | |
| Reserve Code Enforcement Officer (PT) | -3,875 | | |
| Reserve Code Enforcement Officer (PT) | -3,875 | | |
| Total Community Development Dept. | -93,456 | | |

Fiscal Year 2020–21 Balancing the Budget

2. **Transfer in from General Fund Reserves.** Transfer monies from General Fund Reserves to cover a portion of the excess of Uses over Sources.
 - After incorporating into the Fiscal Year 2020–21 General Fund Operating Budget a recurring transfer of **\$100,000** from the Traffic Safety Fund, an additional **\$1,182,134** was required to further reduce the deficit.
 - The \$1,182,134 was reduced to \$654,010 through a series of layoff actions discussed under “3 Personnel Layoffs”, below.

Fiscal Year 2020–21 Balancing the Budget

2. Transfer in from General Fund Reserves.

- One of the primary and ongoing impacts related to producing the Fiscal Year 2020–21 deficit relates to significant, annual increases in pension costs.
 - It was determined that a portion of the Special Purpose Reserves Transfer, as proposed, would be accomplished from the CalPERS and Employee Post Benefits Reserve Fund (-\$200,000).
- The remainder of the transfer in, as proposed, would be accomplished from the following Special Purpose Reserves:
 - Technology Enhancements Reserve Fund (-\$34,500)
 - Retiree Medical Liabilities Reserve Fund (-\$340,000), and
 - General Fund Contingency Reserve Fund (-\$79,510).
- Upon completion of the transfers and reductions in personnel through layoff actions (\$528,124), Estimated Sources were balanced to Estimated Uses for Fiscal Year 2020–21.

Fiscal Year 2020–21

Balancing the Budget

3. **Personnel Layoffs.** At the May 18, 2020, meeting of the City Council, Resolution No. 20–3267 was adopted, declaring a state of fiscal urgency exists in the City of Montclair.
- The Resolution authorized and directed the City Manager to maintain actions already implemented and proceed with a number of revenue reduction measures including, but not limited to the following:
 - Hiring freezes
 - Defunding positions, and
 - Layoffs.
 - The urgency measure directed that these actions be pursued as necessary to address the expanding fiscal crisis related to the COVID–19 outbreak and the shutdown of the economy related to Governor Newsom’s March 19, 2020, Stay–At–Home order.

Fiscal Year 2020–21

Balancing the Budget

3. Personnel Layoffs.

- While every effort was made to achieve a balanced budget through other means, continued work on the Fiscal Year 2020–21 General Fund Operating and Revenue Budgets made it apparent that the layoff process would become an essential part of the effort to achieve a required, balanced budget.
- Regrettably, six full-time General Fund Positions, one part-time General Fund position and five full-time After School Grant funded positions were impacted.
 - Layoffs related to the General Fund positions reduced transfers in from the General Fund Reserves by \$528,124.
 - The five After School Grant employees were laid off due to the loss of grant funding available through the Ontario–Montclair School District (OMSD).
 - Additional grant funding is now available through OMSD that will permit conducting an in-house recruitment to hire back two of the five grant employees.

Fiscal Year 2020-21

REVENUES

Fiscal Year 2020–21 Revenue Budget

Table 7
Estimate of Revenues – All Funds

| | <u>Current Year</u> | <u>Revised Prior Year</u> | <u>Change</u> |
|-------------------------------|----------------------|-------------------------------|-----------------------|
| Estimated Revenue: | | | |
| All Funds | \$ 43,038,686 | \$ 46,065,820 | \$ (3,027,134) |
| General Operating Fund | \$ 27,448,646 | \$ 30,421,546 | \$ (2,972,900) |

Fiscal Year 2020–21 Revenue Components

- ❑ Significant Revenue Components: General Fund:
 - \$3,136,094 decrease in property, sales and use, and transactions and use taxes.
 - \$160,750 decrease in charges for services—primarily due to a projected reduction in plan checking and zoning fees to reflect actual revenues received for the current year. This reduction was partially offset by increased reimbursed program costs.
 - \$374,155 increase in Intergovernmental revenues—primarily due to the approximately \$399,155 the City is expecting to receive from the 2020 May Budget Revise Cares Act Distribution.

Fiscal Year 2020–21 Revenue Components

- ❑ Significant Revenue Components: General Fund:
 - \$14,800 decrease in fines and forfeitures—primarily due to a projected decrease in vehicle impound fees and parking citations to reflect actual revenues received for the current year.
 - \$50,000 increase in miscellaneous revenue—primarily due to increased interest income.

Fiscal Year 2020–21 Revenue Components

- ❑ Significant Revenue Components: All Other Fund Accounts:
 - \$49,534 **decrease** in the Gas Tax Fund—due primarily to the effect the COVID–19 Pandemic and resulting stay-at-home order has had on vehicle usage.
 - \$101,113 **decrease** in the Measure I Fund—due primarily to the effect the COVID–19 Pandemic and resulting stay-at-home order has had on retail sales.
 - \$118,968 **increase** in Community Development Block Grant Fund—recognizing increased federal allocations available through San Bernardino County.

Fiscal Year 2020–21 Revenue Components

- ❑ Significant Revenue Components: All Other Fund Accounts:
 - \$9,898 decrease in Senior Nutrition Fund—recognizing decreased federal allocations available through San Bernardino County.
 - \$70,600 increase in School District Grant Fund—recognizing additional services required by the Chaffey Joint Union High School District.
 - \$10,000 decrease in Kaiser Permanente Grant Fund—recognizing the elimination of this funding.

Fiscal Year 2020-21

APPROPRIATIONS

Fiscal Year 2020–21 Operating Appropriations

**Table 8
Department Requests/City Manager Reductions**

| | Department's Request | City Manager Approved | Change |
|---|-------------------------|--------------------------|--------------|
| Appropriations: | | | |
| Total - All Funds (Exclusive of Debt Service) | \$ 44,670,609 | \$ 39,605,556 | \$ 5,065,053 |
| Total - General Operating Fund | \$ 33,331,159 | \$ 28,730,780 | \$ 4,600,379 |

**Table 9
City Manager Recommended Amounts**

| | Current Year | Prior Year | Change |
|------------------------|---------------|---------------|----------------|
| Appropriations: | | | |
| All Funds | \$ 42,196,318 | \$ 44,064,526 | \$ (1,868,208) |
| General Operating Fund | \$ 28,730,780 | \$ 30,786,656 | \$ (2,055,876) |

Fiscal Year 2020–21 Operating Appropriations

□ Personnel Services:

- All Funds: \$26,271,670—66.3% of Total Appropriations
 - Down from \$26,643,551 (64.2%) for FY 2019–20
- General Fund: \$22,181,254—77.2% of General Fund Appropriations
 - Down from \$22,608,017 (73.4%) for FY 2019–20

Fiscal Year 2020–21 Operating Appropriations

□ Personnel Services:

- 180 Full-Time Positions—down from FY 07/08 organizational high of 231 full-time positions.
 - 6 part-time benefitted positions.
 - 177.66 assigned to General Fund/Sewer Fund/Gas Tax/Economic Development Fund/Grants.
 - 1.65 Montclair Housing Corporation.
 - 0.69 Montclair Successor Redevelopment Agency.

Fiscal Year 2020–21 Operating Appropriations

**Table 10
Budget Allocations by Department**

| | Personnel Services | Services Supplies | Capital Outlay | Total | Change From Prior Year | Prior Year |
|------------------------------|-----------------------|----------------------|-------------------|---------------|------------------------------|---------------|
| City Council | \$ 157,273 | \$ 148,040 | \$ - | \$ 305,313 | \$ (117,135) | \$ 422,448 |
| City Manager | 1,424,751 | 2,913,998 | 34,500 | 4,373,249 | (598,270) | \$ 4,971,519 |
| Administrative Services | 698,539 | 394,885 | - | 1,093,424 | (216,957) | \$ 1,310,381 |
| Human Services | 1,966,750 | 548,717 | - | 2,515,467 | (542,823) | \$ 3,058,290 |
| Police | 8,399,692 | 811,623 | - | 9,211,315 | (464,484) | \$ 9,675,799 |
| Fire | 3,498,040 | 427,154 | - | 3,925,194 | (504,684) | \$ 4,429,878 |
| Public Works | 2,570,248 | 4,482,744 | 346,000 | 7,398,992 | (789,475) | \$ 8,188,467 |
| Community Development | 1,285,483 | 140,125 | - | 1,425,608 | (140,059) | \$ 1,565,667 |
| Economic Development | 450,527 | 1,132,100 | - | 1,582,627 | (299,903) | \$ 1,882,530 |
| City Attorney | 108,053 | 175,000 | - | 283,053 | (38,061) | \$ 321,114 |
| Citywide | 5,649,710 | 1,687,750 | - | 7,337,460 | (2,429) | \$ 7,339,889 |
| Community Facility Districts | 62,604 | 91,250 | - | 153,854 | (15,000) | \$ 168,854 |
| | | | | | | |
| Total Operating Expenditures | \$ 26,271,670 | \$ 12,953,386 | \$ 380,500 | \$ 39,605,556 | \$ (3,729,280) | \$ 43,334,836 |
| | | | | | | |
| Debt Service | - | - | - | 2,590,762 | (3,825) | 2,594,587 |
| | | | | | | |
| Total Expenditures | \$ 26,271,670 | \$ 12,953,386 | \$ 380,500 | \$ 42,196,318 | \$ (3,733,105) | \$ 45,929,423 |

Fiscal Year 2020-21

Fund Transfers

- The Preliminary Operating Budget recommends the following transfers to the General Fund Operating Budget:

Table 11
Transfers to General Fund Operating Budget

| <u>To</u> | <u>From</u> | <u>Purpose</u> | <u>Transfer In</u> | <u>Transfer Out</u> |
|------------------------|--|---|---------------------|---------------------|
| General Operating Fund | Traffic Safety Fund | Program costs | \$ 100,000 | |
| General Operating Fund | Traffic Safety Fund | Program costs | | \$ 100,000 |
| | General Fund - Retiree Medical Liability, CalPERS & Employee Post Benefits and Technology | | \$ 1,182,134 | |
| General Operating Fund | Reserves | Fund excess of appropriations over revenues | | <u>\$ 1,182,134</u> |
| | Total Transfers | | <u>\$ 1,282,134</u> | <u>\$ 1,282,134</u> |

Fiscal Year 2020–21

Fund Transfers

- The Preliminary Operating Budget recommends the following transfers in to the General Fund Operating Budget from the Traffic Safety Fund and the indicated Special Purpose Reserve Funds:
 - \$100,000 from the Traffic Safety Fund for applicable programs;
 - \$200,000 from the CalPERS and Employee Post Benefit Reserve Fund;
 - \$340,000 from the Retiree Medical Liabilities Reserve Fund;
 - \$34,500 from the Technology Enhancements Reserve Fund; and
 - \$79,510 from the General Fund Contingency Reserve Fund.

Fiscal Year 2020-21

GENERAL FUND OPERATING FUND BALANCE

Fiscal Year 2020–21

General Fund Operating Fund Balance

Table 12
General Operating Fund Balance (Undesignated Reserve)
and Comparisons with Operating Appropriations

| <u>Fiscal Year</u> | <u>Operating Fund Balance</u> | <u>Operating Appropriations</u> | <u>Percentage</u> |
|--------------------------|---------------------------------------|-------------------------------------|-------------------|
| Estimated 2020-21 | \$5,750,543 | \$28,730,780 | 20.02% |
| 2019-20 | \$6,157,935 | \$30,786,656 | 20.00% |
| 2018-19 | \$6,201,691 | \$30,013,635 | 20.66% |
| 2017-18 | \$6,173,868 | \$28,853,787 | 21.40% |
| 2016-17 | \$6,021,152 | \$28,175,709 | 21.37% |
| 2015-16 | \$5,616,395 | \$26,437,292 | 21.24% |
| 2014-15 | \$5,208,425 | \$24,597,663 | 21.17% |
| 2013-14 | \$5,018,635 | \$24,687,911 | 20.33% |
| 2012-13 | \$4,439,979 | \$25,448,034 | 17.45% |
| 2011-12 | \$3,442,188 | \$25,572,212 | 13.46% |

Fiscal Year 2020–21

General Fund Operating Fund Balance

- ❑ City Council Short-term Direction – General Fund Balance Minimum Threshold Target – \$6.0 million
 - Estimated June 30, 2021 General Operating Fund’s Fund Balance estimate of \$5,750,543 does not meet the minimum threshold target of \$6.0 million.

- ❑ City Council Long-term Direction – 25% of Operating Appropriations
 - Estimated June 30, 2021 General Operating Fund’s Fund Balance estimate of \$5,750,543 does not meet long-term threshold target of 25% of operating appropriations.

Fiscal Year 2020–21

General Fund Operating Fund Balance

- ❑ Maintaining a minimum threshold of \$6.0 million for Fiscal Year 2020–21 is not achievable due to the following impacts:
 - The spread of the COVID–19 virus, and its continuing, adverse impact on the economy and consumer confidence;
 - The shut down of the economy from mid–March to June — a product of Governor Newsom’s March 19, 2020, Stay–At–Home Order;
 - A decline in consumer confidence; and
 - Increasing personnel–related costs, primarily related to CalPERS retirement costs.
- ❑ City staff continues striving to achieve a Fund Balance in the General Operating Fund that represents no less than 25% of the General Operating Fund’s Operating Budget.

Fiscal Year 2020-21

MAINTAINING GENERAL FUND'S
FUND BALANCE AND RESERVES

Fiscal Year 2020–21

General Operating Fund's Fund Balance/Revenue

- In recent years, the City's success at achieving and maintaining a healthy General Fund Operating Fund Unassigned Reserve Fund Balance has been accomplished through commitment to the following coordinated objectives:
 - Implementation of sound economic policies and practices.
 - Achieving a shared allocation of personnel-related costs between the General Operating Fund, other City entities, and other City Funds.
 - Controlling the number of full-time personnel to address economic changes:
 - Full-time personnel declined from 231 positions in FY 2007–08 to 180 positions for FY 2020–21.
 - Of the 180 full-time positions, 12 positions are subject to a hiring freeze and 6 are vacant due to layoffs (5 full-time After School Grant funded positions were also laid off, however it is anticipated that 2 will be rehired under a successor grant).
 - Employees required to contribute toward CalPERS-related member costs.
 - Implementation of revenue enhancement measures.

Fiscal Year 2020–21

General Operating Fund's Fund Balance/Revenue

- ❑ Fiscal management practices of the City are annually countered by the decisions of the CalPERS Administrative Board of Directors to substantially increase employer pension rates.
 - Actions implemented by the CalPERS Board of Directors produce cumulative year-to-year increases in unfunded liabilities and the employer rate.
 - Annual rate increases are anticipated through Fiscal Year 2032–33, when the total annual payment is projected to be in excess of \$10.5 million.

- ❑ Additionally, the recent COVID–19 pandemic and statewide Stay–At–Home order will have an impact on the City's ability to achieve a healthy General Fund Operating Fund Unassigned Reserve Fund Balance.

Fiscal Year 2020–21

General Operating Fund's Fund Balance/Revenue

- City staff will continue exploring and recommending to the City Council options designed to enhance revenues for Fiscal Year 2020–21 and beyond, including the following:
 - Renewed evaluation of service contracting for specified programs targeted at maintaining and enhancing services and achievable cost efficiencies.
 - Consideration of potential increases in the Transaction and Use Tax and Utility User Tax.
 - Consideration of a Proposition 64 compliance program, and any related fee structure.
 - Consideration of a pension bond to cap the annual employer payments on the unfunded pension liabilities.
 - Promoting development within north Montclair, with projects to include high-density residential and mixed-use development.
 - Redevelopment of Montclair Place to address the changing nature of the retail industry.

Fiscal Year 2020-21

CaIPERS EMPLOYER COSTS

Future Considerations CalPERS Employer Costs

Table 13
Estimation of FY 2020-21 CalPERS Costs

| Employee Groups | Projected City Payments | | | Projected Employee Payments |
|-------------------------|----------------------------|----------------------------|----------------------------|-----------------------------------|
| | Normal Cost | Unfunded Liability | Total | |
| General - Miscellaneous | \$ 778,051 | \$ 2,071,827 | \$ 2,849,878 | \$ 195,090 |
| Public Safety - Fire | 380,207 | 1,509,861 | 1,890,068 | 380,207 |
| Public Safety - Police | 748,765 | 1,728,654 | 2,477,419 | 748,765 |
| Total | <u>\$ 1,907,023</u> | <u>\$ 5,310,342</u> | <u>\$ 7,217,365</u> | <u>\$ 1,324,062</u> |

| | Funding Status | | PERS - Employer Contribution Rates | | | | |
|----------------------------|----------------|---------|------------------------------------|---------|---------------------|-------------------|---------------------|
| | 6/30/17 | 6/30/18 | 2018-19 | 2019-20 | | Projected 2020-21 | |
| | | | % | % | \$ Annual | % | \$ Annual |
| Fire First Tier | 66.4% | 64.2% | 22.35% | 23.65% | \$ 1,503,441 | 25.54% | \$ 1,663,853 |
| Fire Second Tier | 86.3% | 83.7% | 20.42% | 21.75% | \$ 119,522 | 23.56% | \$ 134,247 |
| Police First Tier | 69.8% | 68.1% | 20.56% | 21.93% | \$ 1,828,666 | 23.67% | \$ 2,035,191 |
| Police Second Tier | 85.8% | 82.8% | 18.68% | 20.07% | \$ 225,017 | 21.75% | \$ 254,500 |
| Misc. Pooled - First Tier | 68.1% | 66.3% | 9.80% | 10.92% | \$ 2,363,792 | 12.66% | \$ 2,514,309 |
| Misc. Pooled - Second Tier | 68.1% | 72.7% | 9.80% | 10.92% | \$ 126,731 | 11.16% | \$ 130,337 |
| PEPRA - Misc. | 68.1% | 75.7% | 6.25% | 10.92% | \$ 205,005 | 10.88% | \$ 205,232 |
| PEPRA - Fire | 96.4% | 92.6% | 12.97% | 13.79% | \$ 90,619 | 13.88% | \$ 91,968 |
| PEPRA - Police | 92.6% | 90.2% | 12.14% | 13.03% | \$ 184,840 | 13.04% | \$ 187,728 |
| | | | | | <u>\$ 6,647,633</u> | | <u>\$ 7,217,365</u> |
| | | | | | | Increase | <u>\$ 569,732</u> |

Fiscal Year 2020–21 CalPERS Employer Costs

- ❑ What is on Montclair’s CalPERS horizon?
 - The estimated 2020–21 annual employer rate payment is approximately \$7.2 million, representing an increase of approximately \$4.2 million since FY 2013–14.
 - The increase experienced by the City is recurring going forward; i.e., it does not last for just one year, but compounds and carries over year–to–year.
 - Had the Public Employee Pension Reform Act (PEPRA) of 2012 not become law, and had the City, over the last decade, not negotiated with ALL employees and bargaining groups to pay all or a portion of the Member Contribution, the City would be paying \$1.324 million of the annual member rate, for a total FY 2020–21 payment of **\$8,541,427**.

Fiscal Year 2020–21 CalPERS Employer Costs

- What is on Montclair's CalPERS horizon?
 - In December 2016, CalPERS approved lowering its discount rate from 7.5% to 7% over the course of three years, as follows for local governments:
 - FY 2018–19: 7.375%
 - FY 2019–20: 7.25%
 - FY 2020–21: 7.00%
 - Lowering the discount rate means:
 - Employers will see increases in both their normal costs and unfunded actuarial liabilities.
 - On average, employer rate increases will be approximately 1 to 3 percent of payroll for miscellaneous plans and 2 to 5 percent for safety plans.
 - 30 to 40 percent increases in current unfunded accrued liability payments over a 20 year amortization period will also occur.

Fiscal Year 2020–21

CalPERS Employer Costs

- ❑ What is on Montclair's CalPERS horizon?
 - February of 2018 — CalPERS approved shortening the period over which actuarial gains and losses are amortized (unfunded liabilities) to 20 years from 30 years for new pension liabilities.
 - CalPERS continues to experience poor performance on investments, burdening member agencies with annual cost increases.
 - For the year ending December 31, 2018, CalPERS, on \$351.1 billion in assets, posted a net return of -3.5% — 77 basis points below its benchmark (a basis point is a unit of measure used to describe the percent change, and is equivalent to 0.01%).
 - For the longer term, CalPERS' portfolio earned an annualized 5.1% return for the five years ending December 31, 2018, underperforming its benchmark by 23 basis points.
 - For the 10-year period after the Great Recession, CalPERS earned an annualized net 7.9%, underperforming its benchmark by 74 basis points.

Fiscal Year 2020–21

CalPERS Employer Costs

- Responding to CalPERS Cost Increases:
 - Be active – interact with CalPERS to address rate impacts—previous discussion in FY 2014–15 resulted in temporary reduction of \$2.1 million over proposed increase.
 - Presented CalPERS with a multi–point plan to control rate impacts on contract partners;
 - Control labor costs impacted by CalPERS rates;
 - Reduce long–term rate impacts by supporting legislative policy changes (e.g., PEPRA);
 - Consider pension bond to address unfunded actuarial liabilities; and
 - Reduce interest by paying annual payment at start of fiscal year.

Fiscal Year 2020–21 CalPERS Employer Costs

- Responding to CalPERS Cost Increases:
 - Continue to prudently maintain fiscal operations by:
 - Controlling Expenditures;
 - Propose Increases to Revenue;
 - Pursue New Development in the Community;
 - Control the Size of the Labor Force; and
 - Share Pension–related Costs with Employees.

Fiscal Year 2020–21

Maintaining the General Fund
Promoting Economic Recovery Strategies

Fiscal Year 2020–21

Maintaining the General Fund and Promoting Economic Recovery

- Maintain Fiscal Discipline/Recovery Strategies:
 - Enhance Revenues:
 - Achieve new revenue sources and review existing revenues for accuracy.
 - Respond to economic conditions by controlling General Operating Fund Appropriations:
 - FY 2008–09, Actual: \$29,510,256.
 - FY 2019–20, Adjusted: \$30,786,656.
 - FY 2020–21, Proposed: \$28,730,780.
 - Difference of \$779,476 and \$2,055,876, respectively – latter decrease due to the extensive reductions to operating expenses related to loss of revenue stemming from the COVID–19 outbreak and the Stay–At–Home Order shutting down the economy from mid–March to June 2020.

Fiscal Year 2020–21

Maintaining the General Fund and Promoting Economic Recovery

❑ Reducing/Controlling Expenditures:

- City staff is evaluating financing a pension bond to cap the annual employer payment on unfunded pension liabilities.
 - Based on the most recent analysis (March 2020), the annual payment on a pension bond would cap at approximately \$4.933 million on a 20–year note, \$4.350 million on a 25–year note.
 - For FY 2020–21, the City's payment on just the unfunded liability (UAL) is \$5.134 million, and the annual UAL payment is expected to increase to \$8.3 million by 2033.
- In consideration of CalPERS' past investment portfolio performance, uncertainty remains about this approach as a responsible fiduciary decision.

Fiscal Year 2020–21

Maintaining the General Fund and Promoting Economic Recovery

□ Reducing/Controlling Expenditures:

- Since the Great Recession, employee wage adjustments have been carefully managed, as follows:
 - Stipends, benefit adjustments, and/or incremental wage increases have been authorized as a means to provide working condition improvements, while limiting CalPERS pension cost impacts.
 - Incremental wage increases, when offered, were sometimes offset by requiring employees to pick up all or a share of the CalPERS member rate.
 - Controlling wages can potentially impact the City's ability to recruit and retain employees for certain classifications by reducing the City's ability to offer competitive wage benefit structures.
 - PEPRA helped to control pension costs for new hires.
 - The City has implemented part-time benefitted positions for certain entry level positions as a means to control future CalPERS rate increases.
 - The City avoided participation in costly CalPERS–provided health plans.

Fiscal Year 2020–21

Maintaining the General Fund and Promoting Economic Recovery

❑ Reducing/Controlling Expenditures:

- Until recently, recruitment limitations have been impacted by a variety of factors, including the following:
 - Local competition and a historically low unemployment rate, resulting in a declining number of candidates — the current high unemployment rate could produce larger candidate pools;
 - Current recruitments efforts sometimes produce pools of candidates that often seem less qualified, particularly for law enforcement;
 - Decreasing interest by millennials in certain government positions, including law enforcement, as a career choice — millennials seek alternative job choices, particularly in technology and information sectors;
 - In law enforcement, the profession has been impacted by court decisions and legislation that both diminish the authority of law enforcement officers, and hold law enforcement officers increasingly accountable for their actions — factors likely to be exacerbated by the current civil protests and “Police Defunding” messaging.

Fiscal Year 2020–21

Maintaining the General Fund and Promoting Economic Recovery

❑ Maintaining/Increasing Revenues:

- City Staff offers the following revenue enhancement measures for consideration by the City Council:
 - Consider increase to the City's Transaction and Use Tax.
 - Current tax rate is 0.25%;
 - Increase from 0.25% to 1.00% would presently generate an estimated **\$7.37 million** in annual revenue under current economic conditions.
 - Maximum allowable tax rate per jurisdiction is 10.5%
 - Current total Montclair tax rate is 8.0%.
 - The portion of the tax rate from 8.0% to 10.5% is subject to voter initiative by other jurisdictions eligible to ask voter approval of sales tax increases.

Fiscal Year 2020–21

Maintaining the General Fund and Promoting Economic Recovery

□ Maintaining/Increasing Revenues:

- City Staff offers the following revenue enhancement measures for consideration by the City Council:
 - Consider increase in Utility User Tax to voter approved maximum of 4.74% from the current 3.89%.
 - Increase estimated to generate \$600,000 to \$750,000 annually.
 - Implementation of a tax adjustment would require a contract amendment with the State Board of Equalization for tax implementation.
 - Tax increase would occur April 1, 2021.
 - Consider implementation of a Proposition 64 compliance program, and any related fee structure.
 - Based on the number and type of permits issued, projected to generate \$500,000 to \$2 million annually.

Fiscal Year 2020–21

Maintaining the General Fund and Promoting Economic Recovery

- ❑ Maintaining/Increasing Revenues:
 - Evaluate Service Contracting for specified programs targeted at maintaining and enhancing services and achievable cost efficiencies.
 - City will expand contracting services for Fire Code administration/inspections, and Fire Marshal services.
 - In December 2019, completed a refunding of redevelopment bonds, producing debt service savings through consolidation into 15-year notes, and producing a net return of **\$1,805,962** to the City over the 15-year debt service period.

Fiscal Year 2020–21

Maintaining the General Fund and Promoting Economic Recovery

□ Increasing Revenues:

- Continue promoting development in north Montclair, with projects to include high-density residential and mixed-use development.
 - Current/Planned projects include the following:
 - 385-unit The Paseos at Montclair
 - 129-unit The District at Arrow Station
 - 212-unit The Alexan Kendry
 - Proposed 366 mixed-unit The Village at Montclair
 - Proposed 90-unit Bravo
- Continue promoting redevelopment of Montclair Place to address the changing nature of the retail industry.
 - The Montclair Place District Specific Plan is expected to be presented for City Council consideration in September 2020.

Fiscal Year 2020–21

Maintaining the General Fund and Promoting Economic Recovery

- ❑ Utilizing Reserve Funds to Maintain Balanced Budgets:
 - Except when absolutely essential, such as with the FY 2020–21 Proposed Budget, staff does not recommend the use of Reserve Funds to balance annual budgets.
 - Use of Reserve Funds to balance annual budgets is a violation of local fiduciary responsibility and would quickly deplete Reserve Funds, endangering the City’s fiscal integrity.
 - Once depleted or significantly reduced, reserves can only be recovered by revenue in excess of expenditures, either through revenue increases, expenditure reductions, or a combination of both, in future budget years.
 - Depleting Reserve Funds could result in municipal bankruptcy.

Fiscal Year 2020-21

General Fund
Special Purpose Funds

Fiscal Year 2020–21

Special Purpose Funds

- Special Purpose Funds Established to Address Current and Future Liabilities/Programs/Projects/Goals Requiring a Commitment of Funds Not Incorporated into the General Fund Operating Budget:
 - **CalPERS and Post Employment Liabilities Fund**
 - Retains \$2,500,000 for CalPERS and Post Employment Liabilities.
 - After a proposed transfer of \$200,000 to facilitate deficit closure.
 - **Technology Account**
 - Retains \$286,250 for technology acquisitions.
 - After a proposed transfer of \$34,500 to facilitate deficit closure.
 - **Self-Insurance Fund**
 - Retains \$850,000 for City-related self-insurance retention liabilities.
 - **Building Maintenance Fund**
 - Retains \$600,000 for building maintenance.

Fiscal Year 2020–21

Special Purpose Funds

□ Special Purpose Funds Established to Address Current and Future Liabilities/Programs/Projects/Goals Requiring a Commitment of Funds Not Incorporated into the General Fund Operating Budget:

➤ **Equipment Replacement Fund**

- Retains \$1,390,333 for equipment acquisitions.
 - Reflects \$760,000 toward purchase and rehabilitation of a ladder truck.

➤ **Unanticipated Personnel Adjustment Fund**

- Retains \$700,000 for unanticipated personnel–related expenditures.

➤ **Retiree Medical Liability**

- Retains \$560,000 for Other Post Employment Benefits (OPEB).
 - After a proposed transfer of \$340,000 to facilitate deficit closure.

➤ **Contingency Account**

- Retains \$200,000 for unanticipated expenditures.

***TOTAL ESTIMATED ALL SPECIAL PURPOSE FUNDS: \$7,086,583**

Fiscal Year 2020–21

2014 Issue of Lease Revenue Bonds

Payment Period

Fiscal Year 2014–15

to

Fiscal Year 2044–45

2014 Issue of Lease Revenue Bonds

- Debt Service: 2014 Issue of Lease Revenue Bond:
 - Issue Amount: \$45,000,000.
 - Purpose:
 - Defeasement balance of 2005 Issue (approximately \$22 million balance) – bond funds used for Police Facility and Youth and Senior Center Projects.
 - Remaining available balance on 2014 Issue (approximately \$22,083,879—original) to be used for capital improvement projects—of which \$2,247,461 remains available for facilities and infrastructure improvement projects.
 - Remaining balance committed to Central Avenue Street Rehabilitation.

2014 Issue of Lease Revenue Bonds

- Debt Service: 2014 Issue of Lease Revenue Bond:
 - Annual debt service: approximately \$2.6 million through FY 2044–45.
 - Funding Source for annual debt service:
 - Transactions and Use Tax (TUT) (Measure F)—\$1,840,462.
 - Projected FY 2020–21 TUT revenue—\$1,844,000.
 - Residual Redevelopment Property Tax Revenues—\$750,000.
 - Projected FY 2020–21 residual revenue—\$1,500,000.
 - Consider future opportunities to refund 2014 Issue of Lease Revenue Bond to continue infrastructure improvement programs.
 - Refunding an available option in 2024.

Fiscal Year 2020–21

Preliminary Budget Conclusion

Fiscal Year 2020–21 Conclusion

- ❑ Fiscal Year 2020–21 General Fund Operating Budget:
 - Significantly reduced, but successful compromise budget.
 - Utilizes a number of funds and strategies to achieve balance between proposed expenditures and projected revenues.
 - Relies on use of General Fund Unassigned Reserves and Special Purpose Reserves to achieve balance.
 - Reduces personnel, capital outlay, and services and supplies costs to minimize the use of General Fund Reserve sources to achieve balance.

Fiscal Year 2020–21 Conclusion

- ❑ Fiscal Year 2020–21 General Fund Operating Budget:
 - Significantly reduced, but successful compromise budget.
 - Personnel:
 - \$26,271,670 for All Funds Personnel Services (66.3% of Total Operating Appropriations) for FY 2020–21.
 - \$22,181,254 for General Fund Personnel Services (77.2% of General Fund Operating Budget).
 - Full-time personnel declined from 231 positions in FY 2007–08 to 180 positions for FY 2020–21.
 - Of the 180 full-time positions, 12 positions are subject to a hiring freeze and 6 are vacant due to layoffs (5 full-time After School Grant funded positions were also laid off; however it is anticipated that 2 will be rehired under a successor grant).
 - Duties for frozen/laid off positions will be absorbed by remaining full-time personnel, shared between part-time employees, or suspended in the case of cancelled programs.

Fiscal Year 2020–21 Conclusion

- ❑ Fiscal Year 2020–21 General Fund Operating Budget:
 - Significantly reduced, but successful compromise budget.
 - Capital outlay:
 - \$13,000 for Fire Department Auto Extrication Tool to be funded through CARES Act funding.
 - \$330,000 for 2020 Tymco CNG Street Sweeper (AQMD, Sewer Operating Fund, CFD, Pavement Impact Fee, and Equipment Replacement Fund.
 - \$380,500 for Fiscal Year 2020–21, versus \$349,892 for Fiscal Year 2019–20.
 - \$16,000 High Temp Pressure washer for Public Work.
 - \$34,500 computer equipment for Information Technology (Technology Enhancement Special Purpose Fund).
 - No other equipment requested due to COVID–19 reductions.
 - Services and Supplies:
 - \$14,476,196 in Fiscal Year 2019–20.
 - \$12,953,386 proposed for Fiscal Year 2020–21, a difference of \$1,522,810 — a –10.5% reduction.

Fiscal Year 2020–21 Conclusion

- ❑ Fiscal Year 2020–21 General Fund Operating Budget:
 - Significantly reduced, but successful compromise budget.
 - COVID–19 Expenses/Reimbursement:
 - The City has applied to the Federal Emergency Management Administration (FEMA) for reimbursement for eligible COVID–19 expenses.
 - To date, \$7,472 reimbursed from FEMA, and \$52,801 currently outstanding.
 - City is scheduled to receive approximately \$49,886 Bureau of Justice Assistance grant for PPE and other public safety materials and equipment.
 - \$29,000 potential from FEMA for civil unrest emergency declaration.

Fiscal Year 2020–21 Conclusion

- ❑ Fiscal Year 2020–21 General Fund Operating Budget:
 - Significantly reduced, but successful compromise budget.
 - State CARES Act Stimulus:
 - Coronavirus Aid, Relief, and Economic Security (CARES) Act made available \$15,322,206,367 to California state and counties for COVID–19 relief, of which \$9,526,137,621 went to the state of California.
 - The state of California has indicated it will allocate \$450 million of its \$9,526,137,621 share to municipalities that did not receive any CARES Act funding.
 - For Montclair, the projected distribution is \$399,155 — a sum that has been incorporated into the revenue projections for Fiscal Year 2020–21 to be used for general government purposes.

Fiscal Year 2020–21 Conclusion

- ❑ Fiscal Year 2020–21 General Fund Operating Budget:
 - Significantly reduced, but successful compromise budget.
 - Federal CARES Act Stimulus:
 - The Health and Economic Recovery Omnibus Emergency Solutions Act of 2020, or the "HEROES Act" — the HEROES Act includes more than \$3 trillion in aid for local and state governments, hazard pay for health care workers, and direct payments to individuals. If signed into law, the HEROES Act would provide state and local coronavirus relief funds that could be used for COVID–19–related expenses, to replace foregone revenues not projected on January 31, 2020, or to respond to the negative economic impacts of the COVID–19 outbreak.

Fiscal Year 2020–21 Conclusion

- ❑ Fiscal Year 2020–21 General Fund Operating Budget:
 - Significantly reduced, but successful compromise budget.
 - Federal CARES Act Stimulus.
 - The HEROES Act currently includes \$375 billion for local governments as follows:
 - ❑ \$250 billion awarded within 30 days of enactment to all municipalities and counties, as follows:
 - ▶ \$125 billion to municipalities using a modified CDBG formula.
 - ▶ \$87.5 billion to entitlement municipalities (generally defined as those with populations of at least 50,000).
 - ▶ \$37.5 billion to non-entitlement municipalities (generally defined as those with populations of less than 50,000). These funds would be awarded to states, which must make awards to non-entitlement cities based solely on population within 30 days of receipt.
 - ▶ \$125 billion to counties based on population.

Fiscal Year 2020–21 Conclusion

- ❑ Fiscal Year 2020–21 General Fund Operating Budget:
 - Significantly reduced, but successful compromise budget.
 - Federal CARES Act Stimulus:
 - \$125 billion awarded one year after the date of enactment to all municipalities and counties, as follows:
 - ❑ \$62.5 billion to municipalities using a modified CDBG formula.
 - ❑ \$43.75 billion to entitlement municipalities (generally defined as those with populations of at least 50,000).
 - ❑ \$18.75 billion to non-entitlement municipalities (generally defined as those with populations of less than 50,000). These funds would be awarded to states, which must make awards to non-entitlement cities based solely on population within 30 days of receipt.
 - ❑ \$62.5 billion to counties, based on population.

Fiscal Year 2020–21 Conclusion

- Fiscal Year 2020–21 General Fund Operating Budget:
 - Significantly reduced, but successful compromise budget.
 - Federal CARES Act Stimulus:
 - Based on initial House Committee estimates, Montclair would receive \$12,980,017 in Fiscal Year 2020–21, followed by \$6,490,009 in Fiscal Year 2021–22.
 - The HEROES Act, introduced by the House of Representatives, appears to be dead in the Senate, which introduced its own bill, “The Monthly Economic Crisis Support Act”, a greatly watered down version of the HEROES Act.
 - While it is likely that the HEROES Act will function as a starting point to move negotiations along to achieve common ground between members of the House and Senate, the Senate is not expected to take up another relief bill until after the July 4 holiday, and probably not until August or September.

Fiscal Year 2020–21 Conclusion

- ❑ Fiscal Year 2020–21 General Fund Operating Budget:
 - Significantly reduced, but successful compromise budget.
 - Federal CARES Act Stimulus:
 - HEROES Act or other Federal CARES Act stimulus funds received by the City would be transferred to the City’s Unassigned General Fund Reserve for directed use by the City Council.
 - City Staff would recommend use of Federal CARES Act stimulus to achieve the following:
 - ❑ Restore designated frozen personnel positions, provided the City generates alternative revenue sources to secure funding indefinitely.
 - ❑ Restore designated reductions in services and supplies.
 - ❑ Complete capital purchases.
 - ❑ Complete City Council approved infrastructure improvements.
 - ❑ As permitted by law, provide community relief assistance.
 - ❑ Restore General Fund Reserves.

Fiscal Year 2020–21 Conclusion

- ❑ Fiscal Year 2020–21 General Fund Operating Budget:
 - Significantly reduced, but successful compromise budget.
 - Economic Development Fund:
 - The Economic Development Fund maintains a current fund balance of \$5,905,902.
 - The fund was created after the loss of Redevelopment in 2012 to establish a funding mechanism for economic development activities.
 - Economic Development Funds are used to support the City’s economic activities, and will be a major source of funding for development support in North Montclair.

Fiscal Year 2020–21 Conclusion

- ❑ Fiscal Year 2020–21 General Fund Operating Budget:
 - Significantly reduced, but successful compromise budget.
 - Fiscal Uncertainties. Budget projections for Fiscal Year 2020–21 may be impacted by the following:
 - Substantial new growth in the infection and mortality rate for the novel coronavirus 2019.
 - ❑ Sometime this week, the 500,000 th Covid–19 death will occur.
 - ❑ In most of the world’s most populous countries the daily death count is increasing, not decreasing.
 - ❑ Of the 20 countries with the worst Covid–19 records, 15 are developing countries with the least ability to control the spread of the virus.
 - ❑ For the first time the virus is appearing to spiral out of control in half a dozen large countries like India, Brazil, Pakistan, and Mexico.
 - ❑ Despite the U.S. being rated as the best prepared country for a pandemic, North America is recording [seven times the number of daily deaths](#) as the European Union, even though both continents have a similar population.

Fiscal Year 2020–21 Conclusion

- Fiscal Year 2020–21 General Fund Operating Budget:
 - Significantly reduced, but successful compromise budget.
 - Fiscal Uncertainties:
 - Caution on the part of consumers to re-engage in the retail/commercial marketplace.
 - Fiscal impacts for the third and fourth quarter of Fiscal Year 2019–20 related to the shutdown of the economy due to the COVID–19 outbreak that will not be known until later in Calendar Year 2020 — impacts that could be as high as \$2.1 million, adjusted downward related to cost saving measures implemented in the last quarter of Fiscal Year 2019–20.
 - Uncertainty related to federal relief assistance for local governments.

Fiscal Year 2020–21 Conclusion

- ❑ Fiscal Year 2020–21 General Fund Operating Budget:
 - Significantly reduced, but successful compromise budget.
 - Fiscal Uncertainties:
 - Evidence of a precipitous decline in sales and transactions and use tax revenues for Fiscal Year 2020–21 related to the permanent closure, and slow reopening of businesses.
 - Unknown impact on other tax revenue sources related to the following:
 - ❑ COVID–19 outbreak;
 - ❑ Shutdown of the economy related to the March 19, 2020 Stay–At–Home Order;
 - ❑ Job losses and the impact unemployment will have on consumer spending and consumer confidence; and
 - ❑ The emergency orders designed to interdict the economic impact of COVID–19 on businesses and the general population.

Fiscal Year 2020–21 Conclusion

- ❑ Fiscal Year 2020–21 General Fund Operating Budget:
 - Significantly reduced, but successful compromise budget.
 - Fiscal Uncertainties:
 - Costs that have not yet been determined related to overtime, emergency requirements, and other operational impacts on City revenues related to the City's COVID–19 response.
 - Lack of clarity as to the protracted extension of economic impacts related to the COVID–19 outbreak.



End of
Fiscal Year 2020–21
Preliminary Budget Review
Presentation

Montclair Housing Corporation

Preliminary Budget
Fiscal Year 2020-21

Montclair Housing Corporation

Fiscal Year 2020–21

Sources and Uses—Estimated Revenue

- List of Montclair Housing Corporation Properties:
 - Contained in Montclair Housing Corporation Budget.
 - Estimated Fund Balance, July 1, 2020:
 - \$1,827,783
 - Estimated Revenue:
 - Rental Income: \$975,000
 - Interest Income: \$18,000

TOTAL: \$2,820,783

Montclair Housing Corporation

Fiscal Year 2020–21

Sources and Uses—Appropriations

| ADMINISTRATIVE COSTS | |
|---|---------------------|
| Salaries and Benefits | \$ 266,650 |
| MHC Property Expenses | \$ 580,000 |
| Building Repair—Major | \$ 250,000 |
| Legal Costs | \$ 25,000 |
| Other Professional Services | \$ 20,000 |
| General Insurance | \$ 25,000 |
| Health Permit | \$ 950 |
| Audit Fees | \$ 1,000 |
| Miscellaneous Costs | \$ 1,000 |
| Subtotal: | \$ 1,169,600 |
| Assigned Fund Balance Long-term Maintenance & Repair | \$ 1,651,183 |
| Unassigned Fund Balance | \$ 0 |
| ESTIMATED FUND BALANCE JUNE 30, 2020: | \$1,827,783 |
| ESTIMATED FUND BALANCE JUNE 30, 2021: | \$1,651,183 |



End of
Fiscal Year 2020–21
Montclair Housing Corporation
Budget Review Presentation

Questions & Answers