



City Budget Update & Study Session

May 8, 2020

Overview of Pandemic Impact
Status & Information on Reserves, Revenues & Expenses
Managing Uncertainty
FY 19/20 Budget Adjustments / Options
General Fund 5-year Forecast
Strategy Discussion & Direction

Pandemic Emergency & Outlook

Testing / Tracing

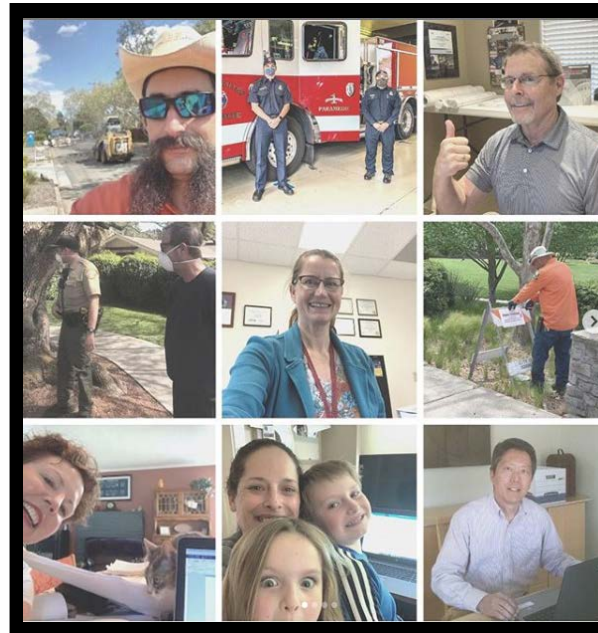
For asymptomatic
For symptomatic
Antibody testing

Shelter in Place

Enter again?
Containment
Mitigation
Suppression

Vaccine

When?
If?



Economic Emergency & Outlook

City of Sonoma Sales Tax & Property Tax consultant (HdL)

Chris Thornberg/Beacon Economics

County Consultant (Robert Eyler, EFA)

Consultants to other cities

"A good forecaster is not smarter than everyone else, he merely has his ignorance better organized."

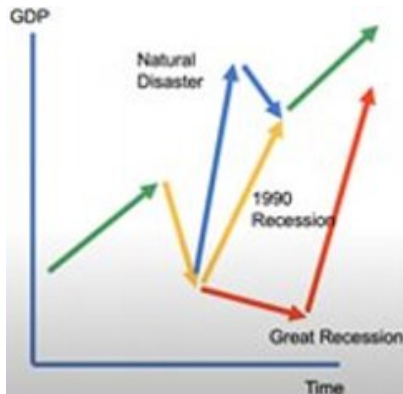
2020: Looking Ahead

Baseline Forecast

- 0% Q1, -25% Q2, 20% Q3, 5% Q4
- Is that a recession?
- Unemployment back below 5% by year end
- Moderate upticks in debt distress
- Stock market—who knows
- Little impact on real estate / venture capital

Wildcards

- Second round of outbreaks / economic shutdowns
- Global situation
- Retail / restaurants already distressed
- Can financial chaos create its own crisis?
- Will consumers go back to normal behavior, or will there be a long run shift



What sort of damage is being now?

- Financial shocks, Supply Chain
- Still a broad range of potential outcomes

How bad will it get?

- How deep is the shutdown, how long?
- How healthy the economy was prior to the pandemic
- What the government does to intervene
- Will there be a major shift in post virus spending patterns

RESTAURANTS & HOTELS

- Restaurant industry reporting 65% drops
- Hotel Industry reporting 85% drops
- Most hotels and large resorts have temporarily shut down.
- Increased shift from take-out to grocery
- Dining rooms expected to operate at reduced capacity after SIP
- Small restaurateurs are vulnerable given already tight operating margins.
- Impacts on travel spending expected to be 7x more than 9/11



HdL Companies

Details: Potential Forecasts on Jobs



Tricky Scenario

- CA economy employs restrictive measures, timeframe relative short in economic time and impacts
- Short recession, workers are furloughed or laid off, and then slowly rehired
- Business losses do not create long-term capacity loss

Ugly Scenario

- Situation is general: jobs losses rise and move from seasonal to structural
- Restart slow, especially in tourism/air travel
- Some structural change: capacity loss in short-term
- Businesses concerned about revenues and profits into 2021 and a second episode

While underscoring the uncertainty surrounding the timeline for activity reopening, Thornberg gave a baseline forecast for the U.S. economy that has GDP growth at 0% in the 1st quarter and -25% in the 2nd, after which the 3rd quarter will surge to 20% and the 4th quarter settle down to 5%. This is based, however, on significant economic activity resuming by the end of May.

The road through uncertainty

Tough decisions

Flexibility to adapt to a rapidly changing situation

Readiness to act quickly if/when required

April 2020

- ✓ Throttle down expenses
- ✓ Run EOC

#1

March 2020

- ✓ Pandemic
- ✓ Local emergency
- ✓ EOC Full Operation
- ✓ Shelter in Place
- ✓ Businesses shut down
- ✓ Staff working more ...

February 2020

- ✓ Best ever YTD revenues

July / August 2020

- ✓ Implement reductions
- ✓ Adjust operations
- ✓ Monitor revenues
- ✓ Monitor business activity – Chamber/VB

#3

September / October 2020

- ✓ Review status
- ✓ Make additional reductions if necessary

#4

January 2021

- ✓ Review status
- ✓ Make adjustments as necessary

#5

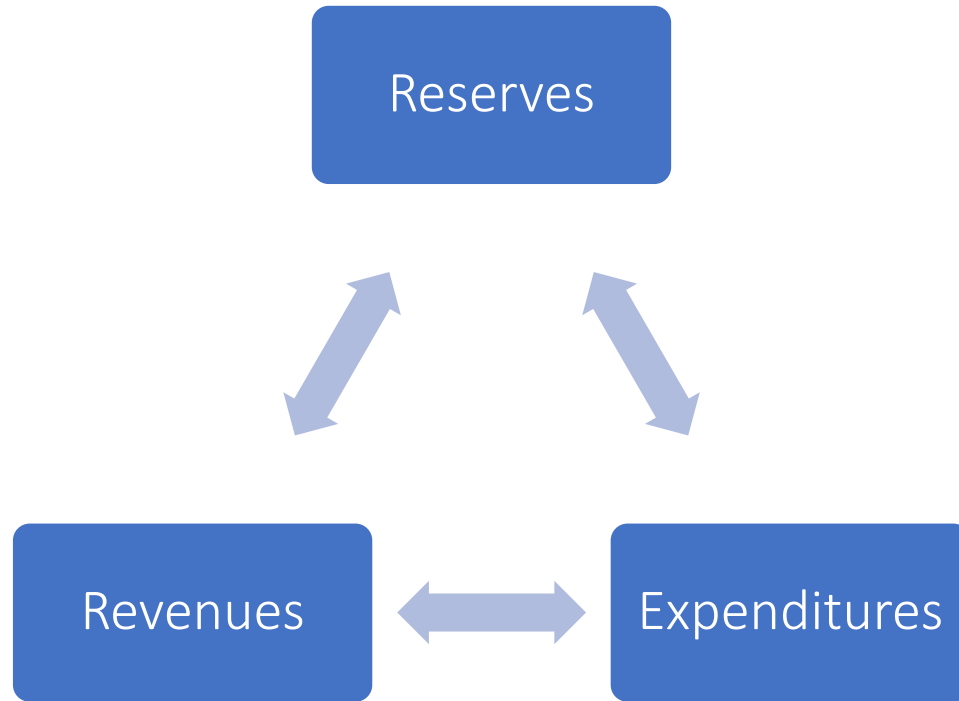
May / June 2020

- ✓ FY 19/20 Budget Adjustments
- ✓ Refine 5-year Forecast
- ✓ Develop budget reduction plan
- ✓ Initiate reductions
- ✓ Develop FY 20/21 budget

#2

How to Balance City's Budget?

Policy choices for the City Council



Reserves

- Reallocation of Assigned Reserves to backfill revenues
- Threshold for draw-down of reserves over time

Expenditures

- Spending priorities / Service Levels / Service Delivery/Key Initiatives
- Staffing and contract reductions
- Phasing strategy for cuts

Revenues

- Local Sales Tax renewal ballot measure
- Other revenue strategies?

RESERVE OVERVIEW

Policy Question #1 – General use of reserves ... when and how?

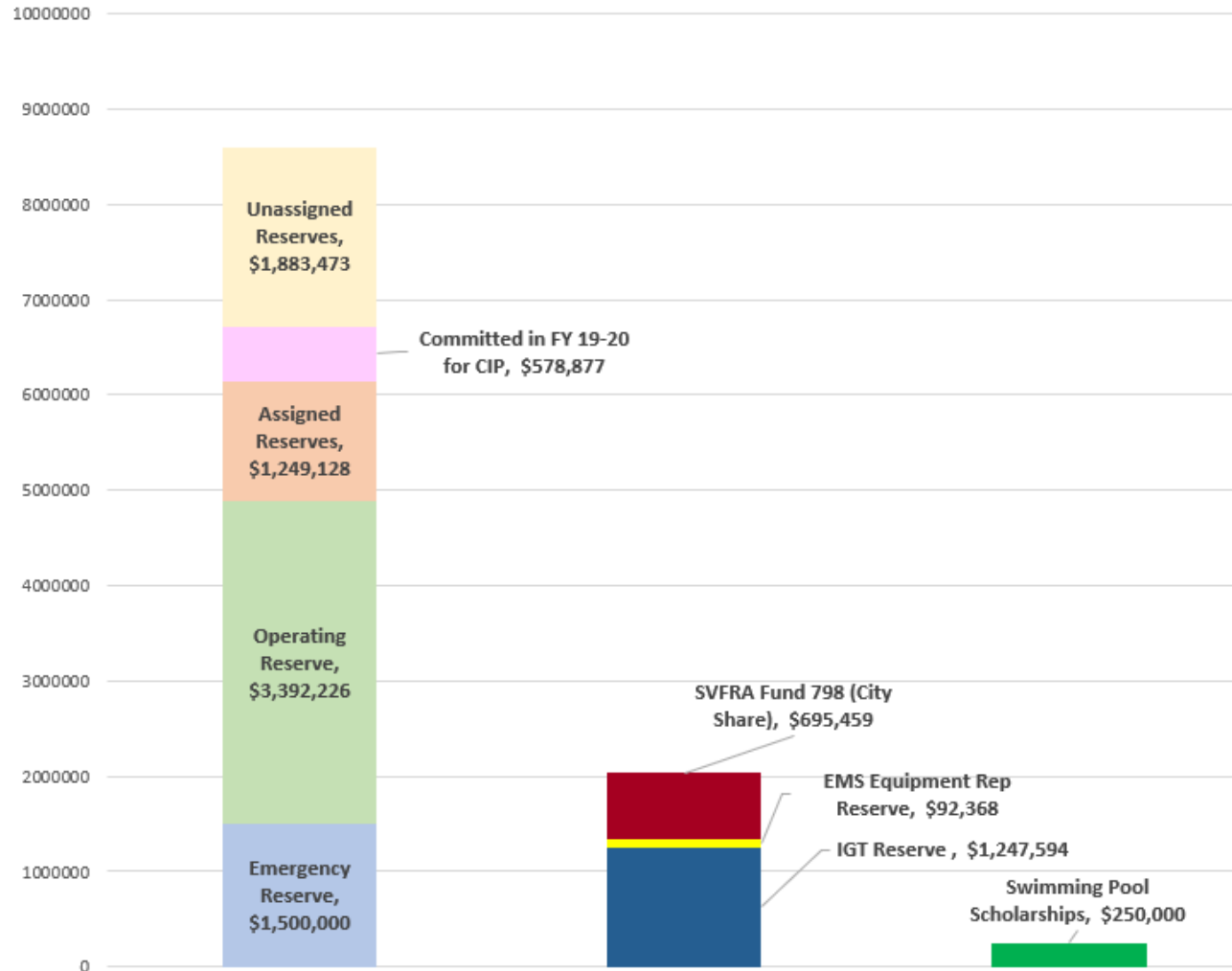
Policy Question #2 – Review and direction on Assigned Reserves?

RESERVE HIGHLIGHTS

- ✓ Purpose of the emergency reserve (economic and natural disaster/pandemic) – is to use reserves in an emergency to backfill revenue loss and/or pay for expenses.
- ✓ Reserves are your savings account / "rainy day" fund. One time money – once you use it ... it is gone.
- ✓ Historically a key funding source for General Fund capital improvements – street, parks.
- ✓ Alternatively, use of reserve reduces the level of cuts and service level reductions that you have to do.
- ✓ Reserves are available - will there be enough?
- ✓ Reserves help you manage uncertainty

Reserves

CITY RESERVES: General Fund and Related



Note: Water transfer set-aside moved to Unassigned

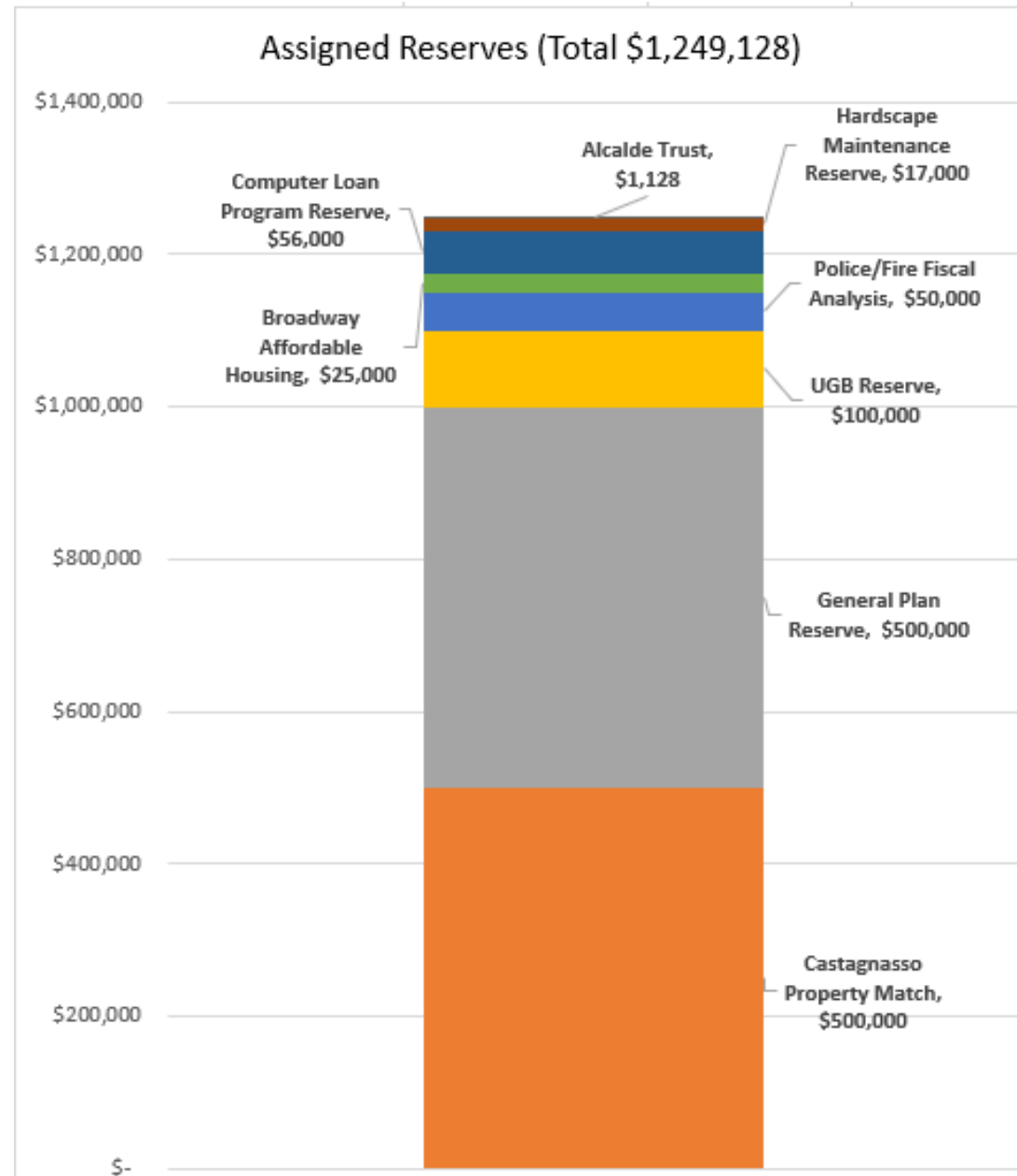
General Fund & Related Reserves:

	GF Reserves	Fire/EMS	Other
Emergency Reserve	\$ 1,500,000		
Operating Reserve	\$ 3,392,226		
Assigned Reserves	\$ 1,249,128		
Committed in FY 19-20 for CIP	\$ 578,877		
Unassigned Reserves	\$ 1,883,473		
IGT Reserve		\$ 1,247,594	
EMS Equipment Rep Reserve		\$ 92,368	
SVFRA Fund 798 (City Share)		\$ 695,459	
Swimming Pool Scholarships			\$ 250,000
	<u>\$ 8,603,704</u>	<u>\$ 2,035,421</u>	<u>\$ 250,000</u>

Long-term Goal:

Preserve/Rebuild Emergency Reserve (\$1.5M) and Economic Reserve (17% of Operating Expenditures)

Assigned Reserves



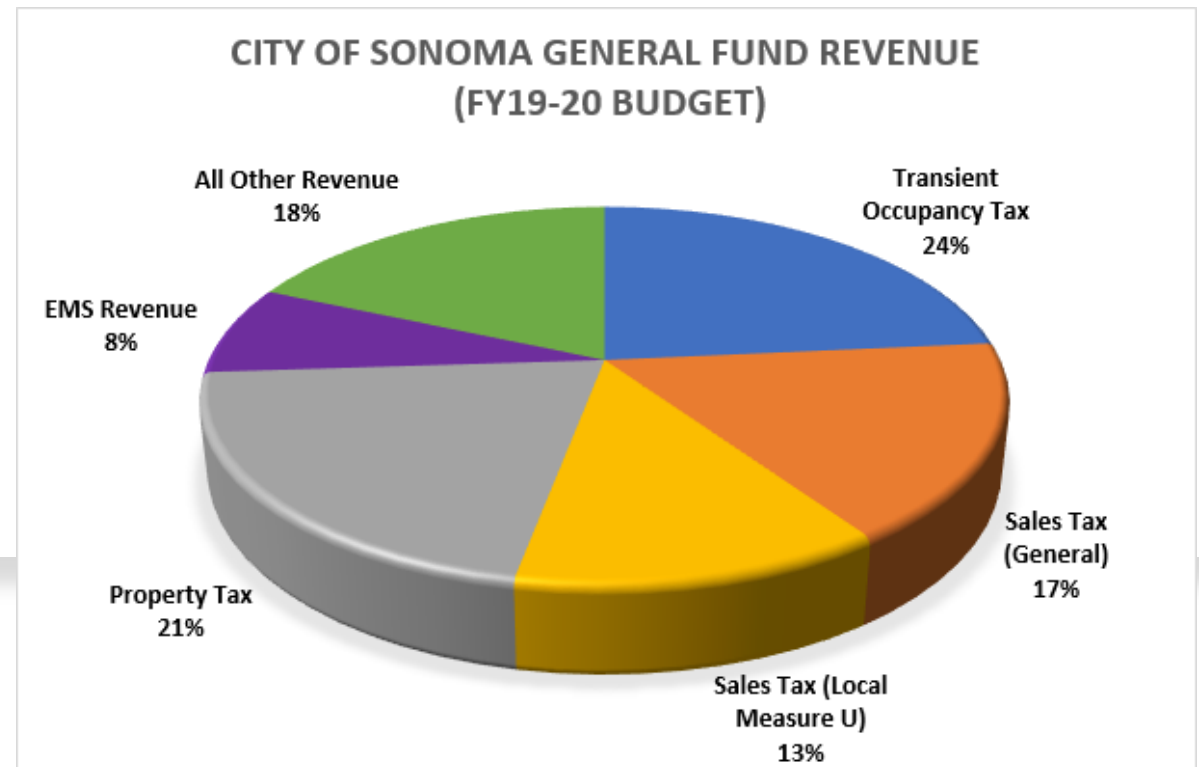
REVENUE OVERVIEW

Policy Question #3 – Move forward with Sales Tax Measure on November 2020 Ballot?

Need to prepare and take action on in June for August submittal to County Elections

REVENUE HIGHLIGHTS

- ✓ 24% of General Fund revenue is from TOT
- ✓ 30% of General Fund is from Sales Tax
- ✓ Dramatic pandemic impact to tourism-based economy that requires events, wedding, wine tasting and dining.
- ✓ ½ cent sales tax is supporting base city services and needed ongoing. (\$2.5M)



FY 19-20 Revenue Loss due to Pandemic

	FY 19/20 Budgeted	FY 19/20 Post COVID	Total Projected Loss
Property Tax	\$ 4,297,336	\$ 4,297,336	\$ -
Transient Occupancy Tax	\$ 4,819,277	\$ 3,204,796	\$(1,614,481)
Sales Tax (general, public safety)	\$ 3,462,362	\$ 3,059,050	\$ (403,312)
Sales Tax (local half-cent)	\$ 2,581,438	\$ 2,257,000	\$ (324,438)
Emergency Medical Services	\$ 1,568,454	\$ 1,750,000	\$ 181,546
Other revenues	\$ 2,631,409	\$ 2,019,159	\$ (612,250)
Transfers In	\$ 1,332,868	\$ 1,361,868	\$ 29,000
TOTAL OPERATING REVENUE	\$ 20,693,144	\$ 17,949,209	\$(2,743,935)
-13% loss in General Fund Revenue Projected (est. 53% of 4th quarter)			

TOT Revenues Scenarios

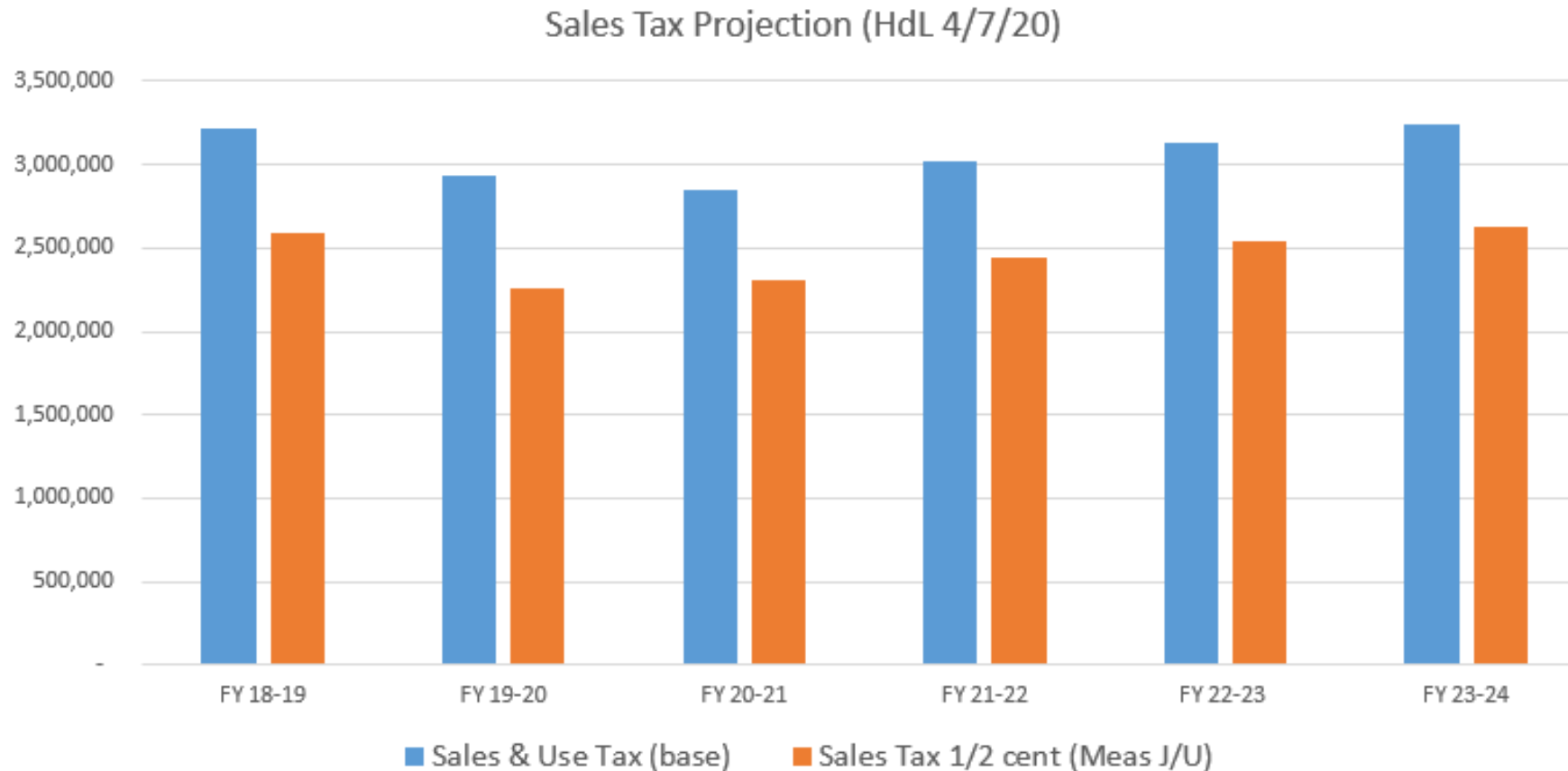
FY 19-20 Budgeted TOT Revenue: \$4,819,277

	HOPEFUL SCENARIO	MIDDLE SCENARIO	BLEAK SCENARIO
FY 19-20 Projected:	\$3,275,464	\$3,204,796	\$3,204,796
% of FY19-20 budget	68%	66%	66%
FY 20-21 Projected:	\$2,879,954	\$2,420,233	\$1,452,829
% of FY19-20 budget	60%	50%	30%
FY 21-22 Projected:	\$4,147,084	\$3,879,915	\$3,377,193
% of FY19-20 budget	86%	81%	70%

5-Year Forecast Uses
Middle Scenario
(additional \$1M loss in
FY 20-21 under Bleak
scenario)

		Hotels Begin Opening in:	% of normal Jan revenue by 1/21	% of normal June revenue by 6/21	% of normal June revenue by 6/22
Assumptions:	Hopeful	June (@15% of normal)	70%	85%	100%
	Middle	July (@20% of normal)	55%	80%	95%
	Bleak	Sept (@20% of normal)	35%	50%	85%

Sales Tax Projections



Assumes restaurant sales for FY 20-21 are 30% below "normal" (FY 18-19) level (vs. about 14% for overall taxable sales).
A quicker recovery of restaurants than projected by HdL (-20%) could add almost \$150K/year to forecast for FY 20-21 (all sales taxes), a slower recovery (-50%) would reduce FY 20-21 by more than \$300K.

EXPENSE OVERVIEW

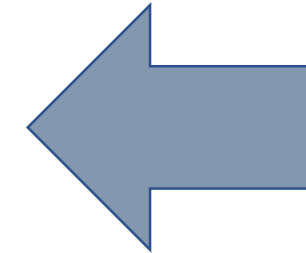
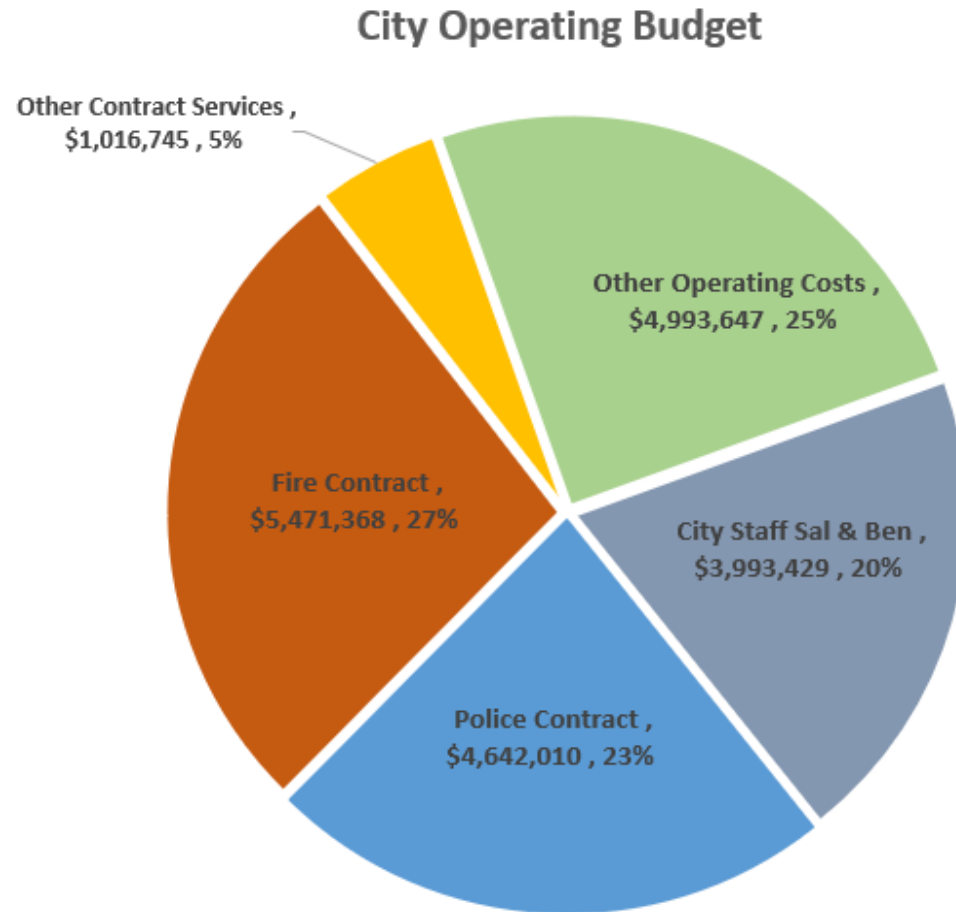
Policy Question #4 – Determine priorities and level of reduction and cuts?
(For FY 20/21, this will come with the Budget Reduction Book for Council decision making.)

Policy Question #5 – Determine the phasing of reductions. Heavy in July?
Or two-phases ... start in July with more reductions ready for October?

EXPENSE HIGHLIGHTS

- ✓ 58% of General Fund is public safety (50% police / fire contracts).
 - 11% increase in Sheriff contract for FY 20/21
 - New SAFER fire grant for 3 additional firefighters/paramedics
 - Have reserves in specialized fire funds to help temporarily backfill fire/EMS costs
- ✓ 20% of General Fund is City staff supporting general city services (planning, building, public works, admin)

City FY 19-20 Operating Budget Expenditures By Type of Cost



CITY STAFFING	
	Budgeted FTE
Public Works	21.0
Admin/Comm Svcs	11.5
Planning & Building	8.5
Police	1.0
TOTAL	42.0

FY 20/21 Expenditure Reduction Options / Ideas

- Additional Short-term/Temporary Measures
 - General Fund CIP project reductions/deferral
 - Extend reductions in contributions to funds for Vehicle and Building Maintenance
 - Redirect targeted revenues (e.g. Measure M Parks, 1% TOT) as language allows
 - Short-term/temporary staff cost saving measures
 - Use of one-time funding sources (IGT reserve, Fire reserve, etc.)
- Longer-Term Measures affecting Service Levels
 - Reduction in Police and Fire Contracts
 - Reduction to Service Contracts
 - Chamber, SVVB, Recreation Partners, others
 - City staffing
 - Will likely include layoffs
 - Alternative service delivery methods
 - Continued reductions in capital investments
- Opportunities for new/increased Revenues or Financing mechanisms
 - E.g., alternative funding mechanism for infrastructure investment and maintenance.



Building the
City Council a
**Budget Reduction
Workbook**
with options for
reductions and
service level
determination for
FY 20/21.

Budget Reductions - Guiding Principles

(Draft for Council Consideration)

- Priority-driven decisions
 - No program, service, or department is "immune".
 - Need reductions/revenue from Police and Fire, but ensure safety and response needs
- Meet legal obligations, including legal mandates, debt service requirements, and contracts
- Assess reductions in terms of impact on service levels (both short and long term), along with identifying possible mitigations.
- Consider creative solutions and options/alternatives for delivery of services
- Retain as much flexibility as possibility to adjust course, given high level of unknowns and actively monitor and update.
- Update and engage public on an ongoing basis.

Fiscal Year 19/20

(July 1, 2019 – June 30, 2020)

HIGHLIGHTS

- ✓ Actions to date
 - ✓ Stopped all non-critical and non-emergency spending
 - ✓ Hiring Freeze (Police CSO and City positions)
 - ✓ Shifted General Fund Maintenance Worker into vacant Water Fund
 - ✓ Determining FY 19/20 estimated year-end expenditures
 - ✓ Developing options for Council consideration

FY 19/20 Budget: Limited ability to make major expenditure reductions – $\frac{3}{4}$ way through fiscal year

FY 19/20 Budget Balancing Options – Work in Progress

Projected Shortfall = \$2,743,935

FY 19/20 Budget Balancing Recommendations	FY 19/20	TOTAL %
1. Budget Reductions <i>Temporarily reduce contributions to Internal Service Funds</i> <i>One-time projects delayed or eliminated</i> <i>Other one-time Departmental Budget Reductions</i> <i>SUBTOTAL</i>	 \$720,000 \$104,800 <u>\$400,000</u> \$1,224,800	 45%
2. Capital Improvement Reductions <i>CIP Project Funding Reductions</i>	 \$253,877	 9%
3. Redirect special/designated revenues to support existing operations <i>Measure M Parks</i>	 \$60,000	 2%
4. Use of Reserves	 \$1,205,258	 44%
Subtotal, Proposed Budget Adjustments: Additional Use of Fund Balance, FY 19/20:	 \$2,743,935	 100%

ALTERNATIVES / OPTIONS:

- Part-Time position reductions or layoffs
- Management Layoffs
- SEIU Layoffs*
- Service contract cuts*
- Increased use of Reserves

Due to legal and/or current contract requirements, unlikely that significant savings would be realized in **current fiscal year.*

Details & impacts on next slide.

**Refine and review final recommendations / options with Council Sub-Committee;
bring resolution to City Council on May 18**

General Fund 5-Year Forecast Fiscal Year 20/21 and beyond

HIGHLIGHTS / PURPOSE

- ✓ Work in Progress ... a tool that changes and updates based on better information
 - ✓ Planning tool - helps to identify revenue and expenditure trends so can see their impact and plan for adjustments.
 - ✓ Not a budget or a labor relations plan
 - ✓ Starting point or baseline
-
- ✓ Not what "will be" - but "what could be if no action taken".
 - ✓ Look at the horizon so can **make decisions today** that create long term financial sustainability.



Forecast Assumptions: REVENUES

Key Assumption: Recessionary "Middle" Scenario

- No federal or state relief/stimulus revenue assumed.
- TOT Forecast uses middle of three scenarios developed.
 - Does not assume 1% TOT goes into General Fund until end of 3-year set aside to Housing.
 - Does not assume new rooms added.
- Uses HdL's revised Sales Tax and Property Tax projections for next five years (recessionary).
 - Small impact from statewide sales tax deferral program.
- Assumes current level of Fire/EMS fund transfers (IGT \$350K/year) to support operations.
- Assumes uninterrupted renewal of local sales tax (½ cent) that expires 9/22.
- No new fees or fee increases (other than CPI) except for new SVFRA First Responder Fee (Jan 2020).
 - No cannabis tax revenue assumed at this time.

Forecast Assumptions: EXPENDITURES

Key Assumption: "Status Quo" Expenditures

- Current City staffing levels (FT and regular PT)
- Current labor agreement costs through FY21-22; assumes 2.5% COLA thereafter.
- Current Police Contract estimate for FY 20-21 with no change in staffing (+\$520K in FY 20-21, +3% in FY 21-22).
- Fire SAFER grant (3 on engine) matching contribution for 3 years; no pickup assumed thereafter
- Other known costs: Debt Service, pension UAL (additional increase assumed in years 4 and 5), scheduled liability and W/C assessments (REMIF)
- 1%/year CPI increases to other costs
- One-time operating expenditures forecasted at \$100K/yr (plus additional \$50K in election years).
- General Fund transfer to CIP forecasted at \$500K/yr (= level of past two years).

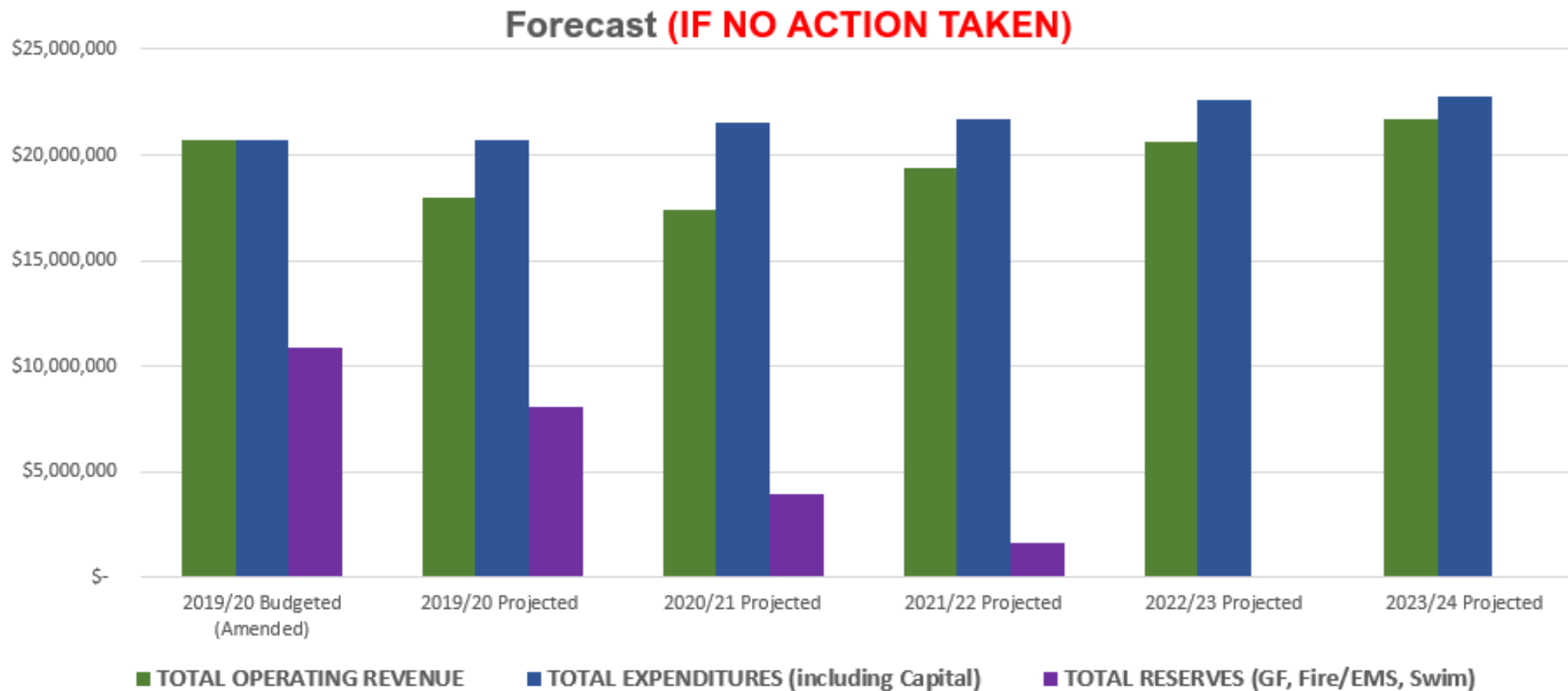
Five Year Forecast *(if no action taken)*

General Fund Forecast Summary		Year 1	Year 2	Year 3	Year 4	Year 5
Description	2019/20 Budgeted (Amended)	2019/20 Projected	2020/21 Projected	2021/22 Projected	2022/23 Projected	2023/24 Projected
Revenues:						
Property Tax	\$ 4,297,336	\$ 4,297,336	\$ 4,386,372	\$ 4,513,519	\$ 4,645,634	\$ 4,826,839
Transient Occupancy Tax	\$ 4,819,277	\$ 3,204,796	\$ 2,420,233	\$ 3,879,915	\$ 4,623,566	\$ 5,220,883
Sales Tax (general, public safety)	\$ 3,462,362	\$ 3,059,050	\$ 2,919,550	\$ 3,149,452	\$ 3,270,722	\$ 3,383,719
Sales Tax (local half-cent; expires 9/22)	\$ 2,581,438	\$ 2,257,000	\$ 2,313,000	\$ 2,446,000	\$ 2,541,000	\$ 2,628,000
Emergency Medical Services	\$ 1,568,454	\$ 1,750,000	\$ 1,785,000	\$ 1,820,700	\$ 1,857,114	\$ 1,894,256
Other revenues	\$ 2,631,409	\$ 2,019,159	\$ 2,488,784	\$ 2,532,030	\$ 2,576,151	\$ 2,621,166
Transfers In	\$ 1,332,868	\$ 1,361,868	\$ 1,059,479	\$ 1,072,770	\$ 1,086,392	\$ 1,100,356
Reimbursements and Relief Funding	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
TOTAL OPERATING REVENUE	\$ 20,693,144	\$ 17,949,209	\$ 17,372,417	\$ 19,414,386	\$ 20,600,579	\$ 21,675,219
Loss of Revenue from FY 19-20 Adopted:		\$ (2,743,935)	\$ (3,320,727)	\$ (1,278,758)	\$ (92,565)	\$ 982,075
Expenditures:						
Current Staffing (Salaries & Benefits)	\$ 3,993,429	\$ 3,993,429	\$ 4,098,562	\$ 4,208,078	\$ 4,317,916	\$ 4,430,639
Police Contract	\$ 4,642,010	\$ 4,642,010	\$ 5,162,195	\$ 5,342,872	\$ 5,476,444	\$ 5,613,355
Fire/EMS Contract	\$ 5,471,368	\$ 5,500,368	\$ 5,695,152	\$ 5,843,106	\$ 6,148,295	\$ 6,039,367
Other Professional/Contractual Services	\$ 1,016,745	\$ 1,016,745	\$ 1,047,112	\$ 1,057,584	\$ 1,068,159	\$ 1,078,841
Payments on Accrued Pension Liabilities	\$ 1,335,780	\$ 1,335,780	\$ 1,584,266	\$ 1,324,500	\$ 1,588,070	\$ 1,650,990
Other Operating Costs	\$ 3,657,867	\$ 3,657,867	\$ 3,289,400	\$ 3,325,923	\$ 3,362,866	\$ 3,377,917
TOTAL OPERATING EXPENDITURES	\$ 20,117,199	\$ 20,146,199	\$ 20,876,688	\$ 21,102,063	\$ 21,961,750	\$ 22,191,108
OPERATING SURPLUS (DEFICIT):	\$ 575,945	\$ (2,196,990)	\$ (3,504,271)	\$ (1,687,677)	\$ (1,361,171)	\$ (515,889)
Less: Use of GF Reserves for CIP & 1-time Operating Costs:	\$ (578,877)	\$ (578,877)	\$ (650,000)	\$ (600,000)	\$ (650,000)	\$ (600,000)
Equals: TOTAL IMPACT ON GENERAL FUND:	\$ (2,932)	\$ (2,775,867)	\$ (4,154,271)	\$ (2,287,677)	\$ (2,011,171)	\$ (1,115,889)

Assuming
½ cent sales tax
is renewed
(Expires 9/22)

Operating deficits
peak next year at
\$3.5M, then
decline to \$0.5M
by FY23/24.

Forecasted Revenues, Expenditures, & Reserves



In Progress: FY 20/21 (and beyond) Budget Balancing Analysis & Recommendations

General Fund Forecast Summary		Year 1	Year 2	Year 3	Year 4	Year 5
Description	2019/20 Budgeted (Amended)	2019/20 Projected	2020/21 Projected	2021/22 Projected	2022/23 Projected	2023/24 Projected
TOTAL OPERATING REVENUE	\$ 20,693,144	\$ 17,949,209	\$ 17,372,417	\$ 19,414,386	\$ 20,600,579	\$ 21,675,219
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Proposed Strategy (initial):						
OPERATING BUDGET REDUCTIONS/SAVINGS:						
Police budget reductions						
Fire/EMS budget reductions						
Fire/EMS additional revenues and use of Fire/EMS Reserves						
Subtotal Public Safety:						
Reductions to Other City Departments & Programs:						
CAPITAL IMPROVEMENT PROGRAM (CIP) REDUCTIONS:						
REDIRECT SPECIAL REVENUES to support existing operations:						
USE OF GENERAL RESERVES:						
TOTAL:		\$ 2,865,930	\$ 4,154,271	\$ 2,287,677	\$ 2,011,171	\$ 1,115,889

Actual recommendations being developed. Will be a blend of reserves, one-time funds, reductions to staff, contract reductions and other reductions.

Building the City Council a **Budget Workbook** with options for reductions and service level determination for FY 20/21.

The Road Ahead ...

Constantly Checking our Engine

Ongoing Monitoring and Adjustment



- Variations to the revenue forecast will be largely driven by recovery rate of tourism/travel industry.
 - Monitor TOT revenues and forecast monthly using actual receipts as well as discussions with hoteliers.
 - Consider contracting with TOT consultant specializing in this area to review/update (\$5-10K cost).
 - HdL will be updating their sales tax projections for the City in about a month.
- Consider conducting monthly survey of Top 20 sales tax generators (via Chamber) to speed sales tax feedback loop.
- Establish "trigger point(s)" for Phase II reductions.

**Multiple Variables
and High Level of
Unknowns**



- **Develop forecast with scenarios for key revenues.**
- **Increase monitoring mechanisms.**
- **Provide budget balancing options to Council.**
- **Prepare phased response levels.**
- **Be ready to implement if/when triggered.**

The road through uncertainty

Tough decisions
Flexibility to adapt to a rapidly changing situation
Readiness to act quickly if/when required

March 2020

- ✓ Pandemic
- ✓ Local emergency
- ✓ EOC Full Operation
- ✓ Shelter in Place
- ✓ Businesses shut down
- ✓ Staff working more ...

February 2020

- ✓ Best ever YTD revenues

April 2020

- ✓ Throttle down unnecessary expenses
- ✓ Run EOC

July / August 2020

- ✓ Implement reductions
- ✓ Adjust operations
- ✓ Monitor revenues
- ✓ Monitor business activity – Chamber/VB

September / October 2020

- ✓ Review status
- ✓ Make additional reductions if necessary

May / June 2020

- ✓ FY 19/20 Budget Adjustments
- ✓ Refine 5-year Forecast
- ✓ Develop budget reduction plan
- ✓ Initiate reductions
- ✓ Develop FY 20/21 budget

January 2021

- ✓ Review status
- ✓ Make adjustments as necessary



City Council Policy Direction Recap

Begin budget discussions ...

RESERVES	<p>Policy Question #1 – General use of reserves and when/how?</p> <p>Policy Question #2 – Review & direction on Assigned Reserves?</p> <p>FYI 19/20 Use of reserves</p> <p>Strategic use of reserves for coming years</p>
REVENUES	<p>Policy Question #3 – Move forward with Sales Tax Measure on November 2020 Ballot?</p>
EXPENSES	<p>Policy Question #4 -- Determine priorities and level of reduction and cuts? (For FY 20/21, this will come with the Budget Reduction Book for Council decision making.)</p> <p>Policy Question #5 – Determine phasing strategy. Heavy in July? Or two-phases ... start in July with more reductions ready for October?</p>
OVERALL STRATEGY	<p>Policy Question #6 – Is there additional direction or policy guidance that the City Council wants to provide for this budget reduction effort?</p>



City Budget Update & Study Session

Next Steps

- ✓ Work with Budget Sub-Committee for input / feedback as refine budget items
- ✓ Meet with employee groups and continue to communicate with employees
- ✓ Finalize FY 19/20 Budget Adjustments for May 18th Council Meeting
- ✓ Continue to refine 5-Year Forecast
- ✓ Prepare Budget Reduction Book for Council Study Session in June