



Agenda Report

From: Ryan Cornell, Director of Administrative Services
Subject: Preliminary Year-End Budget Report – Fiscal Year 2019-20
Date: August 18, 2020

Facts

1. In accordance with the Council's adopted fiscal policies, no less than semi-annually, there will be a comprehensive review of the operations in comparison to the existing budget. Projections of revenues and expenditures through the end of the fiscal year will be prepared and reviewed by the City Manager, the Director of Administrative Services with a report and presentation to the City Council.
2. City Council was presented with the Quarterly Budget Reports for FY 2019-20 on [November 19, 2019](#), [February 20, 2020](#), and [April 21, 2020](#). This report represents the final quarterly update for the fiscal year, serving as the preliminary fiscal year-end report.
3. The financial information provided in this report has not been audited nor have all end-of-year adjustments been made. As a result, the amounts provided in this report are still considered projected and could change once the audit is complete; however, staff does not anticipate that they will change significantly. City Council will still be presented the final, audited Comprehensive Annual Financial Report (CAFR) for the fiscal year towards the end of 2020.
4. The Coronavirus (COVID-19) pandemic has had significant negative impacts on the economy nationally as well as locally, resulting in significant revenue reductions at all levels of government.
5. On March 18, 2020, the County of San Luis Obispo issued a "shelter-in-home" mandate, halting all non-essential work in the workplace, in order to slow the spread of the virus. The following day, Governor Newsom issued a similar mandate state-wide.
6. This report is unique compared to previous budget update reports in that not only does this provide an overview of the City's projected financial position based on actual transactions incurred through June 30, 2020, but it also outlines the fiscal impacts caused by the COVID-19 pandemic.
7. On [March 27, 2020](#), the City Council was presented with the preliminary fiscal impacts of the COVID-19 impact. The report estimated an economic revenue loss of approximately \$4 to \$6 million for the three months remaining in fiscal year 2019-20. The projected impacts were reevaluated in June during the budget process (which showed revenue loss closer to \$4 million) but now that most of the revenues have been received, the actual revenue loss was approximately \$3.2 million.
8. Typical quarterly budget reports include all major operating funds including the General, Water, and Wastewater Funds. The enterprise funds (i.e., the water, wastewater, parking, and Airport funds) have been excluded from this report because there have not been major changes since the 3rd Quarter Budget Report nor have the funds been adversely impacted by the COVID-19 pandemic to a significant extent. The end-of-year financial activity for the enterprise funds will be presented in the City's CAFR.

Analysis and Conclusions

The City adopted its budget in June, establishing the financial plan for the period beginning on July 1, 2020 and ending on June 30, 2021. Because there are a number of assumptions and predictions used in the budget process (and greater variability than normal due to the unprecedented pandemic), it is extremely important to revisit those assumptions to ensure the budget continues to be financially sound. During the budget adoption, City Council requested a flexible budget such that, if the situation became better or

worse, an immediate response could be made. Based on the financial activity received over the past three to five months, the City’s fiscal situation is neither significantly better nor significantly worse than what was presented during budget review and adoption. As a result, staff recommends continuing with the current course of action. Regardless, City staff is keeping a close eye on the financial activity received and incurred to-date. Should any event major event significantly impact the currently estimated revenues and expenses of the City, City Council will be presented with such information. Otherwise, the next major revenue of projected revenues and expenses will be at the 1st Quarter Budget Report (currently anticipated for the October 20, 2020 City Council meeting).

General Fund Revenues

Based on the actual revenues the City has received, the estimated loss of revenues for FY 2019-20 is approximately \$3.2 million and is summarized by revenue source as follows:

Revenues	Pre- COVID-19 Projection	Estimated Actuals	Variance
Sales Tax	\$ 15,729,212	\$ 14,368,393	\$ (1,360,819)
Property Tax	11,634,305	11,732,895	98,590
TOT	6,730,715	5,039,545	(1,691,170)
Other Taxes	4,652,343	4,516,049	(136,294)
Charges for Services	2,644,534	2,733,811	89,277
Licenses & Permits	785,664	638,849	(146,815)
All Other Revenues & Transfers	3,658,320	3,605,898	(52,422)
Total	\$ 45,835,093	\$ 42,635,440	\$ (3,199,653)

As shown above, the COVID-19 pandemic has had an immediate, unprecedented, and significant impact on the local economy, and City revenues. As projected, sales tax and transient occupancy tax (TOT) have had the largest impacts, representing a \$1.4 million and \$1.7 million revenue loss, respectively. Tourism, specifically the taxes it generates, both in sales tax and TOT, is a key industry with the City and it has come nearly to a screeching halt. Further revenue reductions were assumed in FY 2020-21 (approximately \$900,000 in sales tax and \$400,000 in TOT) because of the continued and prolonged shelter-at-home mandates. Review and updates to the revenue assumptions applied in FY 2020-21 is still anticipated to be made at the 1st Quarter Budget Report.

General Fund Expenditures

Historically, the City has not spent 100% of the budget appropriations. These budget savings typically come from employee vacancies, reflecting budgeted positions that are unfilled for a period of time during the fiscal year, due to turnover. At the mid-year budget report update, it was anticipated that 94% of appropriations should be spent, resulting in savings of approximately \$3.1 million. However, due to the actions taken by City Council (i.e., hiring freeze, discretionary spending freeze, pension trust payment deferral, and the deferment/elimination of certain capital projects), the City is anticipating 89% of appropriations being spent, resulting in savings of \$5.7 million. All of these measures have been put in place to minimize the impacts on General Fund Reserves. As a result, the revenue losses have been mitigated so that reserve levels will not drop below what was originally budgeted at the end of FY 2019-20. However, the City will still end FY 2019-20 with a deficit (revenues minus expenditures) of \$1.7 million.

Expenditures	Budget	Updated Projection	Variance
Personnel	\$ 25,251,658	\$ 22,888,335	\$ (2,363,323)
Operating	12,067,677	10,182,979	(1,884,698)
Debt	344,100	344,069	(31)

Expenditures	Budget	Updated Projection	Variance
Capital	437,386	357,126	(80,260)
Transfers to Replacement Funds	1,433,290	1,375,917	(57,373)
Transfers to CIP Fund	9,449,000	8,132,855	(1,316,145)
All Other Expenses & Transfers	1,001,000	1,026,745	25,745
Total	\$ 49,984,111	\$ 44,308,026	\$ (5,676,085)

General Fund Reserves

It is important for the City to maintain healthy reserve balances because the effects of the prolonged pandemic will impact FY 2020-21 and possibly subsequent years (City Council approved FY 2020-21 budget anticipated ending reserve balances of 30% by the end of the fiscal year). By protecting the reserve balance in this fiscal year, it will allow the City to be in a better fiscal position next fiscal year, with the ultimate goal of minimizing the impacts to our community and minimizing the impacts of department operations while maintaining fiscal sustainability. The FY 2020-21 Budget assumed a beginning reserve balance of \$18,078,003; that balance is now projected to be \$18,102,061, a difference of only \$24,058. In other words, the City's fiscal situation is neither better nor worse than what was presented during budget adoption, so staff recommends continuing with the current course of action.

Fiscal Impact

There is no fiscal impact to receive and file this report. In November, after the end of FY 2020-1's first quarter, the quarterly report will provide the Council with an opportunity to make any changes to the FY 2020-1 budget it deems necessary.

Recommendation

Receive and file the report, providing any direction or requests for future reports to meet Council needs.

Attachments

1. General Fund Income Statement

Attachment 1

CITY OF EL PASO DE ROBLES
 FOURTH QUARTER FINANCIAL REPORT
 General Fund
 For the Fiscal Year Ending June 30, 2020

	Originally Adopted Budget	Updated Budget	Estimated Actuals	Variance Projected End of Year	Projected % Received/ Expended
REVENUES					
Taxes					
Sales Tax	\$ 15,676,800	\$ 15,676,800	\$ 14,368,393	\$ (1,308,407)	91.7%
Property Tax	11,431,000	11,431,000	11,732,895	301,895	102.6%
Transient Occupancy Tax	6,773,000	6,773,000	5,039,545	(1,733,455)	74.4%
Other Taxes	4,552,000	4,552,000	4,516,049	(35,951)	99.2%
Total Taxes	38,432,800	38,432,800	35,656,882	(2,775,918)	92.8%
Charges for Current Services	2,611,000	2,631,000	2,733,811	102,811	103.9%
Licenses and Permits	650,000	650,000	638,849	(11,151)	98.3%
Use of Money and Property	340,000	340,000	723,933	383,933	212.9%
Fines and Forfeitures	145,000	145,000	85,267	(59,733)	58.8%
Operating Grants	968,000	1,106,639	914,850	(191,789)	82.7%
Other Revenues	196,500	196,500	172,851	(23,649)	88.0%
Interfund Transfers	1,345,600	1,709,100	1,708,997	(103)	100.0%
Total Revenues	44,688,900	45,211,039	42,635,440	(2,575,599)	94.3%
EXPENDITURES					
City Council/City Manager's Office					
Personnel Services	1,785,300	1,785,300	1,527,292	(258,008)	85.5%
Operating Expenses	676,400	797,490	603,578	(193,912)	75.7%
Transfer to Replacement Funds	108,300	108,300	108,300	-	100.0%
Total City Manager's Office	2,570,000	2,691,090	2,239,170	(451,920)	83.2%
Administrative Services					
Personnel Services	1,370,600	1,375,600	1,199,762	(175,838)	87.2%
Operating Expenses	2,232,100	2,232,100	2,019,588	(212,512)	90.5%
Transfer to Replacement Funds	6,200	6,200	6,200	-	100.0%
Total Administrative Services	3,608,900	3,613,900	3,225,550	(388,350)	89.3%
Police					
Personnel Services	8,895,800	9,296,358	8,017,861	(1,278,497)	86.2%
Operating Expenses	1,262,700	1,434,060	1,078,700	(355,360)	75.2%
Capital Outlay	-	19,586	71,656	52,070	365.9%
Transfer to Replacement Funds	408,000	472,340	403,681	(68,659)	85.5%
Total Police	10,566,500	11,222,344	9,571,898	(1,650,446)	85.3%
Emergency Services					
Personnel Services	6,067,800	6,130,800	6,098,606	(32,194)	99.5%
Operating Expenses	480,250	832,550	923,709	91,159	110.9%
Capital Outlay	6,500	6,500	-	(6,500)	0.0%
Transfer to Replacement Funds	411,250	411,250	422,148	10,898	102.6%
Total Emergency Services	6,965,800	7,381,100	7,444,463	63,363	100.9%
Public Works					
Personnel Services	1,128,500	1,128,500	1,006,133	(122,367)	89.2%
Operating Expenses	1,917,340	1,928,540	1,586,595	(341,945)	82.3%
Debt Service	138,600	138,600	138,599	(1)	100.0%
Capital Outlay	-	26,000	25,999	(1)	100.0%
Transfer to Replacement Funds	182,600	182,600	183,720	1,120	100.6%
Total Public Works	3,367,040	3,404,240	2,941,046	(463,194)	86.4%

Continued

Attachment 1

CITY OF EL PASO DE ROBLES
 FOURTH QUARTER FINANCIAL REPORT
 General Fund
 For the Fiscal Year Ending June 30, 2020

	Originally Adopted Budget	Updated Budget	Projected End of Year	Variance Projected End of Year	Projected % Received/ Expended
EXPENDITURES - continued					
Community Services					
Personnel Services	\$ 3,381,000	\$ 3,381,000	\$ 3,086,667	\$ (294,333)	91.3%
Operating Expenses	3,086,600	3,253,537	2,717,894	(535,643)	83.5%
Debt Service	205,500	205,500	205,470	(30)	100.0%
Capital Outlay	28,600	335,300	259,471	(75,829)	77.4%
Transfer to Replacement Funds	206,500	206,500	205,936	(564)	99.7%
Total Community Services	<u>6,908,200</u>	<u>7,381,837</u>	<u>6,475,438</u>	<u>(906,399)</u>	<u>87.7%</u>
Community Development					
Personnel Services	2,154,100	2,154,100	1,952,014	(202,086)	90.6%
Operating Expenses	1,479,500	1,589,400	1,252,915	(336,485)	78.8%
Capital Outlay	-	50,000	-	(50,000)	0.0%
Transfer to Replacement Funds	46,100	46,100	45,932	(168)	99.6%
Total Community Development	<u>3,679,700</u>	<u>3,839,600</u>	<u>3,250,861</u>	<u>(588,739)</u>	<u>84.7%</u>
Non-Departmental/Interfund Transfers/City-wide Contingency					
Transfers to CIP Fund	6,519,000	9,449,000	8,132,855	(1,316,145)	86.1%
All Other Interfund Transfers Out	125,000	472,000	677,245	205,245	143.5%
Debt Service (OPEB/COP Bonds)	641,500	349,500	349,500	-	100.0%
City-wide Contingency	250,000	179,500	-	(179,500)	0.0%
Total Interfund Transfers	<u>7,535,500</u>	<u>10,450,000</u>	<u>9,159,600</u>	<u>(1,290,400)</u>	<u>87.7%</u>
Total Expenditures	<u>45,201,640</u>	<u>49,984,111</u>	<u>44,308,026</u>	<u>(5,676,085)</u>	<u>88.6%</u>
Deficiency of Revenues under Expenditures	<u>\$ (512,740)</u>	<u>\$ (4,773,072)</u>	<u>\$ (1,672,586)</u>	<u>\$ 3,100,486</u>	

Concluded