



Legislation Text

File #: 20-0890, **Version:** 1

Recommendation to approve the Fiscal Year 2020 (FY 20) One-Times departmental and fund budget appropriation adjustments to help mitigate the FY 20 financial shortfall in accordance with existing City Council policy. (Citywide)

The COVID-19 pandemic (pandemic) has significantly altered the focus and trajectory of the City's finances in FY 20 and the outyears. Previously, the City had been projecting surpluses for FY 20 in various funds, but with the unexpected and deep revenue losses resulting from the Stay at Home orders and business closures, many funds are facing shortfalls, including the General Fund, Special Advertising and Promotions Fund (SAP), and the Tidelands Operating Fund.

The latest projection has the General Fund potentially facing a shortfall ranging from \$25 to \$41 million, if no corrective action is taken. Heavy revenue losses are anticipated for the year in areas such as sales tax, oil revenue, and Transient Occupancy Tax (TOT). The recently approved allocation from the State CARES Act of \$40.3 million will allow the City to cover some of the City's expenses related to the pandemic but it is uncertain how much of the shortfall this will resolve as costs continue to be incurred due to the unpredictable nature of the pandemic response. The pandemic is also occurring at a time when there are significant one-time funding needs, and trends and factors indicate significant shortfalls in the out-years, including a projected \$30 million shortfall that needs to be resolved for FY 21.

The SAP fund has also been severely impacted as the TOT, the fund's main source of revenue, is experiencing severe losses from the dramatic slowing of the tourism industry. TOT revenue is historically volatile. Past history indicates a pattern where revenue losses from a downturn usually take several years to recover. The revenue losses from FY 20 alone could potentially require up to \$5 million from SAP funds available and, without corrective action, all the remaining operating reserves could be depleted by FY 22 or FY 23.

The Tidelands Operating Fund is also experiencing heavy revenue losses in FY 20 due to low oil prices and reduced oil revenues. At one point during the year, the price of oil was negative. The Fund is also expected to need to pay debt service on one or more bond issues that would normally be covered by other revenue sources such as rent paid to Tidelands by the Aquarium Corporation and passenger fees paid by Carnival Cruise Lines. These normal revenues are either not available or reduced due to the pandemic. In addition, the temporary closing of the Convention Center is expected to cost the fund over \$5 million in FY 20.

In response to these unprecedented fiscal challenges and the changed fiscal outlook due to the pandemic, the City is taking actions to reduce spending in the current fiscal year and to better position the funds as the City heads into

additional financial challenges in the upcoming years. One such budget action in FY 20 is the suspension and reduction of selected one-time non-Capital Improvement Plan (CIP) projects and expenditures that were approved by the City Council in the Adopted FY 20 Budget and in the first citywide departmental and fund budget appropriation adjustments on March 17, 2020. While reducing one-time non-CIP projects is not a desirable action, the magnitude of the revenue losses and the fiscal challenges faced by the City requires strong action to generate as much one-time savings as possible. It is already anticipated that various operating reserves will need to be utilized for the General Fund, SAP, and Tidelands Operating Fund to balance the year, depending on the final year-end status. Without additional action such as the reduction of projects as recommended in this action, more reserves will potentially need to be evaluated, putting these funds at greater financial risk in the future.

Departments with City Council-approved one-time appropriations were asked to evaluate and identify whether the project was critical in nature, if the funds were already expended, and if the project could practically be held or suspended. In addition to generating savings, a key goal of this process was to strike a balance between immediate savings and strategic investments that may save the City money or liability in the future. Based on the review and analysis conducted, staff proposes the reduction of select one-time funds for the General Fund Group, the Special Advertising and Promotions Fund Group, and the Tidelands Operating Fund Group. The final decisions were based on the following criteria:

GENERAL FUND, SAP, AND TIDELANDS OPERATING ONE-TIMES

Status	Criteria
Do not reduce	Funds have already been expended; project is not discretionary and costs will be incurred; project cannot be practically suspended and is already being implemented; project supports critical City Council and City priorities.
Reduce	Project is complete and there were savings; project funding can be scaled back due to the City's fiscal challenges and still maintain the core services/goals; project scope has changed and no longer needs the funding; project has been impacted by pandemic and is not able to be implemented as originally anticipated; project deemed a lower priority in light of City's fiscal challenges.

A summary of proposed adjustments by fund and department for one-time projects to be reduced can be found in Attachment A. A list of projects that were reviewed but are not being recommended for reduction at this time can be found in Attachment B.

In addition, staff is reviewing projects in the CIP to determine how best to move forward. In general, CIP projects are categorized into one of three groups as detailed in the following table.

CIP PROJECTS

Status	Criteria
Moving Forward	Projects already in construction, set to begin construction, or funded by a grant with deadlines that cannot be adjusted.
Temporarily Paused	Projects in design but not yet bid for construction.
Temporarily Suspended	Projects that have not begun design, EIR, or not completely funded.

Investment in the City's infrastructure is a priority and all efforts are being made to ensure projects can move forward. Any projects that are temporarily paused or suspended can resume once more information is available about overall funding. Staff continues to advocate for state and federal funding to address the City's infrastructure needs.

This matter was reviewed by Deputy City Attorney Amy R. Webber on July 29, 2020.

The request for adjustments to the FY 20 departmental and fund appropriations are necessary to reflect changes in the budget status. City Council action is requested on September 8, 2020, to enable the timely processing of budget adjustments.

The following appropriation adjustments are recommended to generate savings to help reduce the FY 20 shortfall. The detail for one-time appropriation reductions can be found in Attachment A. Should future budget status or other actions

require a change to the FY 20 one-times being reduced or one-times moving forward, adjustments will be brought back to the City Council for review. This recommendation has no staffing impact beyond the normal budgeted scope of duties and is consistent with existing City Council priorities. Below is a breakdown of the fiscal impact by fund group:

General Fund Group

- Decrease appropriations in the General Fund Group in various departments by \$3,933,423 of which \$2,135,985 are from non-Measure A one-times and \$1,797,438 are from Measure A one-times, to reduce the FY 20 financial shortfall.

Special Advertising and Promotion Fund Group

- Decrease appropriations in the Special Advertising and Promotion Fund Group in various departments by \$761,655, to reduce the FY 20 financial shortfall.

Tidelands Operating Fund Group

- Decrease appropriations in the Tidelands Operating Fund Group in various departments by \$2,496,735, to reduce the FY 20 financial shortfall.

Approve recommendation.

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JOHN GROSS
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APPROVED:

THOMAS B. MODICA
ACTING CITY MANAGER