

STAFF REPORT

DATE: May 5, 2020

TO: City Council

FROM: Mike Webb, City Manager
Elena Adair, Finance Director

SUBJECT: FY 2020/21 General Fund Financial Status and Long-Range Forecast Overview

Recommendation

Receive Fiscal Year (FY) 2020/21 General Fund financial status update and long-range forecast adjusted for the impacts of coronavirus pandemic. Provide direction to staff on options available to balance the General Fund for the upcoming budget year and beyond.

Fiscal Impact

The information presented in this report provides the condensed FY 2020/21 General Fund budget and long-range financial forecast. The FY 2020/21 General Fund ending unreserved fund balance is projected to be \$1.6 million (2.5% of expenditures) taking into consideration the impacts of coronavirus. The staff is developing options needed to balance the General Fund when presented for review on May 19, 2020.

Council Goal(s)

Ensure Fiscal Resilience.

Background and Analysis

The staff is in the process of developing the FY 2020/21 Budget, which will be presented in detail to Council later this month. The FY 2020/21 financial plan prepared at the time the FY 2019/20 Budget adoption was used as the starting point, however, the COVID-19 worldwide pandemic has resulted in a significant change since the original forecast. The impact of the pandemic has been unprecedented on not just the City of Davis, but on the US and the State's economy. Some of the very telling highlights include a statewide shelter-at-home order, new nationwide unemployment claims filed within a 6-week period reaching over 30 million, and travel spending dropping 78%. The gross domestic product (GDP) declined 4.8% in the first quarter of 2020, and is expected to decrease 30-35% in the second quarter, when the full force of the economic shutdown will be reflected.

Staff looked at the impact of the coronavirus effects on various City revenue sources. However, given the fiscal uncertainty resulting from the pandemic, a number of assumptions are being made to estimate its effect on the City's finances.

During Tuesday's meeting, fiscal consultant Bob Leland of Management Partners, with whom the City has worked for the past three years to develop the long-range General Fund fiscal forecast model, will walk through an updated model to reflect impacts from coronavirus.

Several revenue changes are included the General Fund long-term financial modeling tool that will be reviewed with the City Council during the meeting. With substantial decrease in the General Fund's available resources, staff had to review and consider various options to balance the Budget not only in the upcoming fiscal year, but also to make prudent and sufficient adjustments now to mitigate losses in future years.

The City is working with Management Partners, fiscal consultant, to update the long-range financial model and to utilize their knowledge and experience in working with multiple municipalities in the state to project the impact of a recession created by the coronavirus pandemic.