



MEMORANDUM

June 2020

TO: Honorable Mayor and City Council Members

FROM: Mike Webb, City Manager

SUBJECT: **FISCAL YEAR 2020/21 BUDGET TRANSMITTAL LETTER**

Preparing a budget for a City always has its share of unknown variables. Doing it in the midst of an economic shutdown during a global pandemic elevates the task to a new level of uncertainty. It requires adapting as the economy declines and recovers. As more information is learned about the pandemic, caused by the virus known as COVID-19, staff will have a better understanding of the revenue outlook and whether the City will be reimbursed for expenses related to the emergency response.

At this point, it is unknown how deep the economic downturn will be and how long it will last. As of the writing of this transmittal letter, the spread of COVID-19 still continues, and there is no known timing for vaccine development. Nevertheless, California counties and cities are trying to navigate uncharted territory to minimize negative effects of a resurgence of the virus that will likely have a recurring severe effect on an already weak economy.

At the federal level, a financial aid package is offered to cities with population over 500,000. The City has been involved in a number of efforts to lobby the federal government to extend financial relief to agencies with population of at least 50,000 such as City of Davis. These efforts have not been successful yet. This leaves the City to rely mostly on its own resources that are primarily tax based.

With all the current complexities and uncertainties in mind, the FY 2020/21 Proposed Budget for the City of Davis is presented. The City is fortunate to have a solid budgetary foundation and a periodic long-term fiscal review that allow it to plan and absorb the impacts of the unprecedented downturn. However, the FY 2020/21 budget was not immune to the economic shock the COVID-19 pandemic caused. With substantial decreases 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 FY 2020/21 financial plan prepared at the time of the FY 2019/20 Budget adoption was used as the starting point. The budget presented contains only the most critical augmentation paired with a number of significant reductions deemed necessary to ensure fiscal resiliency, stability and prudence.

General Fund

For FY 2020/21, the General Fund estimated revenues are projected at \$60.7 million. The projected expenditures are equal to \$57.3 million. The projected fund balance is \$17.7 million for FY 2019/20 and \$8.5 million for FY 2020/21. The General Fund revenue and expenditure assumptions are consistent with the City's long-term financial model. While the ultimate impact to the City's General Fund revenue is unknown, the City's long-term financial model is estimating the total reduction in revenue will range from \$11 million (fast recovery) to \$20 million (slow recovery) over the next 4-7 years. Fiscal prudence demands that we assume the higher reduction of \$20 million and the proposed budget reflects this assumption.

Proposed Budget Reductions by Department

Each department was asked to provide 5% reduction options to the budget to be used as a measure to balance the General Fund budget. These reductions were reviewed and considered by the City Manager and those recommended are described below. Recommending departmental reductions is not done lightly. The City organization is stretched to attain the expected service levels with current resources. Proposed cuts were compiled as strategically as possible to provide a path to maintain both existing positions and staffing while minimizing decreases to service levels. The list below goes as far as possible without wholesale elimination of existing programs.

City Manager's Office: The proposed expenditure reduction for the City Manager's Office is \$372,000. The reductions include the following changes:

- Eliminate recently vacated Communication and Customer Service Manager position;
- Reduce funding for community arts grants and community events; and
- Reduce funding available for contract professional services.

Administrative Services

- Information Systems: The proposed expenditure reduction for the Information Services Department is \$11,000, which reduces repair and maintenance budget for the citywide radio project.
- Human Resources: The proposed expenditure reduction for the Human Resources Department is \$35,000, which is proposed through a combination of reductions to staff development, shifting eligible pre-employment costs to non-general fund sources and reducing costs associated with the overall recruitment process.
- Finance: The proposed expenditure reduction for the Finance Department is \$73,000, which reduces the staff development budget and shifts utility operations cost to enterprise funds.

Community Development and Sustainability: The proposed expenditure reduction for the Department is \$177,000. This change affects personnel and services and supplies costs as follows:

- Downgrade Planner position to an Assistant Planner;

- Realign Assistant City Manager, Property Management Coordinator and temporary part - time positions to coincide with existing workload that is eligible for non-General Fund resources; and
- Reduce training and professional services budgets.

Parks and Community Services: The proposed expenditure reduction for the Department is \$458,000. This change affects personnel and services and supplies costs as follows:

- Eliminate a vacant Senior Parks Supervisor position;
- Reduce part-time staff budget for aquatics, teen services, gymnastics, adult sports and senior services programs; and
- Reduce water utility budget due to improved irrigation system.

Fire: The proposed expenditure reduction for the Department is currently \$230,000. This change affects personnel and services and supplies costs as follows:

- Eliminate a vacant Fire Inspector Position and backfill with light duty staff or contracts;
- Reduce overtime caused by training and meeting schedule; and
- Reduce training and supplies budgets.

Police: The proposed expenditure reduction for the Department is \$994,000. This change affects personnel and services and supplies costs as follows:

- Eliminate one vacant Corporal position (to be reinstated in FY 2021/22);
- Eliminate two vacant Police Officer positions (to be reinstated in FY 2021/22);
- Eliminate Police Officer Trainee part-time position;
- Eliminate vacant Police Records Specialist position; and
- Reduce training and professional services budgets.

Public Works Engineering and Transportation: The proposed expenditure reduction for the Department is \$93,000, which reduces professional services for traffic and general engineering and for architectural services, as well as reductions in supplies.

Public Works Utilities and Operations: The proposed General Fund expenditure reduction for the Department is \$167,000, which reduces services and supplies budget Reductions include removal of funds to procure additional storage space needed at the Corporation Yard, fewer materials for road repairs, delay of purchases of new tools and equipment, reduction in funds for preventative maintenance of signals and reductions in various materials and supplies.

Personnel Concessions

The Proposed Budget also builds in roughly \$1 million in employee concessions. Employee groups are coming to the table to work with the City on these savings, for what would be the equivalent of seven days of furloughs. These cost saving concessions will enable the City to pass a balanced budget and avoid layoffs.

Other Adjustments

In addition to the budget reductions by each department, the FY 2020/21 General Fund contribution to the Facility Replacement Fund was reduced by \$180,000 from annual allocation of \$360,000. Further, in working with the Public Work Utilities and Operations Department staff,

Police Department HVAC project is being delayed and funding is being returned back to the General Fund to increase reserves.

New Funding requests (General Fund)

Although the focus of this proposed budget is on ways to decrease it, there are still a few additions deemed necessary by the City Manager, after an exhaustive review. These additions are either activities required by law or involve public health/life safety issues.

- \$300,000 of one-time allocations for the General Plan Update, including Housing Element, and for implementation of the Climate Action and Adaptation Plan. The General Plan Update costs are fully offset with revenues previously collected specifically for such purpose. The City is required by the State law to produce a Housing Element by May of 2021.
- \$256,000 of which \$211,000 are ongoing costs, for pruning of additional tree inventory, provide part-time hours for an Urban Forestry Technician, and fund work order management software maintenance costs for three years.
- \$20,000 in ongoing expenditures to fund increased cost of FirstNet services to assist the Fire Department with improved communications and reporting efficiencies.
- \$185,000 of which \$105,000 are in one-time expenditures to fund County services for increased mental health crisis calls, safety equipment, FirstNet services and equipment for crime scene investigations in the Police Department.
- \$46,520 in ongoing costs offset with \$2,900 of revenues to fund monthly rent of a new trailer for Public Works Engineering and Transportation and the City's share of increased costs of the crossing guard contract.

Capital Improvement Projects Funded by the General Fund

When the impacts of the stay-at-home orders due to COVID-19 became apparent, staff immediately took a number of actions to slow down cash outflows. Among the measures taken was a thorough review of the currently approved capital projects with an emphasis on those funded by the General Fund. Due to significant decline in the General Fund resources and economic uncertainties created by the COVID-19 pandemic, multiple projects have been proposed for defunding or other eligible resources have been identified to substitute the General Fund allocations towards these projects in an effort to keep them active.

Finance and Public Works departments together with the City Manager's Office set up criteria in order to determine which projects should move forward and which should be postponed until a future time when General Fund revenues recover and fund balance is rebuilt to the City Council required level of 15%. The selection was based on the critical needs, cost-efficiency efforts, City Council set priorities and health and safety benefits. As of March 2020, the General Fund had \$14.8 million in capital project commitments. After careful review, these commitments have been reduced down to \$7.41 million. This was accomplished in one of three ways:

- Completely defunding the project if it was not critical to complete it immediately;

- Reducing the General Fund need by descopeing and deferring some work; or
- Replacing the General Fund allocations to projects with other fund resources.

While the totality of the above actions will delay pursuit of a number of projects anticipated for design and construction in the coming year, the need to reduce the General Fund impact is important to the overall fiscal health of the City. Furthermore, all of the deferred project activity can be picked up and pursued in the future when funding can be prioritized to continue with the work.

General Fund Balance

The essence of a budget forecast is the fund balance. Budgets cannot run fund balance deficits, so the financial assumptions selected must result in a sustainable balance over time. The City's General Fund reserve policy calls for a "reserve equal to 15% of General Fund expenditures." This is close to the recommendation of the Government Finance Officers Association that a minimum of two month's operating revenues or expenditures (16.67%) be maintained. Such a reserve will cover the normal ebb and flow of cash balances throughout the year, and help buy time for implementation of budget recovery plans in the event an economic downturn is greater than projected, or the needs of an emergency or other unanticipated expenditure exceed the current budget.

With all the measures already put in place and proposed as part of the FY 2020/21 Budget, staff is projecting to achieve fund balance of 13% for FY 2020/21.

Staff made significant progress to improve fund balance impacted by the COVID-19 pandemic. FY 2023/24 is the projected lowest point, due to increased pension costs and projected economic slowdown. The projected fund balance begins to improve starting in FY 2024/25 and is expected to exceed the 15% required reserve. Any excess funds could be used for restoration of City services, positions or infrastructure maintenance.

Other Funds Revenue Highlights:

The stay-at-home order resulted not only in the decline of the various general tax revenues, it also means less driving and demand for fuel, reducing the amount of Gas Tax revenue available for maintenance of City streets and roadways.

The City's Enterprise Funds are projecting reductions in revenue collections due to impacts of COVID-19. The projected revenue decline for Water Fund (511) is \$1.1 million, Sewer Fund (531) is \$0.7 million and Solid Waste Fund (520) is \$0.7 million. Of note, the City Council voted to postpone Solid Waste Fund rate increases scheduled for July 1, 2020 to alleviate the impact on residents and businesses affected by the pandemic.

New Funding requests (Non-General Fund Programs)

Cable TV Fund (150): \$200,000 one-time addition to the budget from cable franchise fees to improve City infrastructure for high speed internet improvements at Vets Memorial Theatre, Senior Center, and other select public locations.

Gas Tax Fund (109): \$2,684 in ongoing costs to fund the City's portion of increased costs of crossing guard contract. This program is partially funded by the General Fund and the School District as well.

Public Safety Fund (155): \$100,000 increase in one-time allocations to fund fire hazard assessment and vegetation and tree canopies mitigation services; \$200,000 in one-time expenditures to fund acquisition of public safety cameras to be installed at up to four major intersections.

Information Technology Fund (624): \$45,000 one-time addition to the budget to hire a cyber security consultant.

Construction Tax Fund (200)/General Facility Impact Fees (481): \$350,000 of one-time allocations to fund the General Plan Update and EIR, which will include establishing parameters and completion of RPQ and RFP processes.

Open Space Fund (135)/Open Space Impact Fees Fund (482): \$100,800 of one-time allocations to provide funding for 12 months of plant establishment for North Davis Uplands Restoration site.

Parks Impact Fees Fund (483): \$90,000 for one-time expenditures to upgrade and replace irrigation controllers to improve water management.

Sewer Fund (531): \$159,500 in ongoing and one-time allocations to fund acquisition of the new closed-circuit TV van with equipment, and an increase in water testing cost to comply with SALTS/Salinity regulations.

Solid Waste Fund (520)/Water Fund (511): \$268,804 of one-time allocation for implementation of 2020 Climate Action and Adaptation Plan Update, purchase of tracking software and vulnerability assessment and adaption plan.

Workers Compensation Fund (630): The Insurance JPA YCPARMIA has informed the City that workers compensation costs will be going up by approximately \$291,000 in FY 2020/21 to \$1.56 million.

Sources of Risk

Every budget has the risk that estimation will not accurately predict future performance for revenue and expenditures and that conditions will deviate from the assumptions used to make estimates.

The proposed budget for FY 2020/21 and the long-term projection include assumptions about cost increases that depend on collective bargaining results. Benefit costs will also depend on CalPERS performance, amortization and smoothing policies, and revisions of actuarial assumptions. Other Post-Employment Benefits (OPEB) cost increases are incorporated in the long-term forecast. All of these risks described above must be considered in making decisions about ongoing expenditure and reserve levels.

Summary

The City Council and City staff have worked together to develop a budget while meeting the City's operational needs and addressing the quality of life priorities our community wants addressed,

such as public safety services, excellent parks and recreation and responsible maintenance of infrastructure such as streets and bike paths. In particular, thanks are due to members of the City's Executive Management Team, the City Manager's Office and Finance staff who produced the budget document and contributed critical insights and countless hours of dedicated work to this major undertaking. We also thank those residents who have partnered in these efforts by taking the time to comment during the budget workshop, by email, or in person.

On behalf of all City employees, staff looks forward to working with the City Council and the community on the implementation of this policy document, which honors our commitment to maintaining the quality of life for every resident. The result of the City's efforts will be a continuing commitment to providing high-quality services to the Davis community, maintaining facilities and infrastructure, and proactively responding to changing fiscal realities.

With the City Council's leadership and the help of our community, we can continue to maintain strong fiscal stewardship while ensuring our budget and financial policies reflect spending consistent with the community's priorities.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Mike Webb", written in a cursive style.

Mike Webb, City Manager