
INTEROFFICE MEMORANDUM

TO: LAYNE LONG, CITY MANAGER

FROM: ERIC FROST, FINANCE DIRECTOR

SUBJECT: MID-YEAR FINANCIAL

DATE: MARCH 31, 2020

CC: DEPARTMENT HEADS

Finance prepared a financial forecast in mid-February. The forecast was limited to the General Fund because most of the volatility in revenues occurs in the General Fund. At the time, it was not apparent what rational there was for a recession. Within in less than a month, that thinking changed. The analysis contrasts the Feb. Forecast compared to the March Forecast.

Revenues.

General Fund revenues are projected to be down \$2.2 million from budget as shown on Table I, Current Year Forecast, FY 19/20, General Fund – Revenues.

Table I

Current Year Forecast, FY 19/20									
General Fund - Revenues									
All Amounts in Thousands			FY 19/20						
Revenues			Budget		Forecast	Forecast		Change	Change
					Jan 2020	Mar 2020		from Budget	from Jan. 2020
	Property Tax		6,542		6,961	6,961		419	(0)
	Sales Tax		8,012		7,937	7,143		(869)	(794)
	TOT		4,160		4,079	2,991		(1,169)	(1,088)
	Business Licenses & Card Room		1,675		1,635	1,591		(84)	(44)
	Franchise Taxes		1,060		1,089	1,089		29	-
	Housing Rents		2,231		2,170	2,170		(61)	-
			23,680		23,871	21,945		(1,735)	(1,926)
	All Others		2,882		2,827	2,461		(420)	(366)
	Total		26,562		26,698	24,406		(2,155)	(2,292)

The revenues that are showing the largest decline are:

Transient Occupancy Tax. The hotels are running at less than 20% of their former occupancy. The forecast assumes this will continue until at least the end of the fiscal year.

Sales Tax. Marina's per capital sales tax is less than other Peninsula cities. As a result, staff examined the make up of the City's sales tax and applied a discount by category as shown on Table II, Projected COVID 19 Declines in City Sales Tax.

Table II
Projected COVID 19 Declines in City Sales Tax

Sales Tax Categories							
3Q 2019							
Amounts in Thousands							
			Tax Reciepts	Share		Adjust.	Forecast
Auto and Transportation			14	2.3%		-75%	3.5
Building and Construction			25	4.0%		0%	25
Business and Industry			25	4.0%		-10%	22.5
Food and Drug			43	6.9%		20%	51.6
Fuel and Service Stations			104	16.7%		-10%	93.6
General Consumer			301	48.4%		-30%	210.7
Restaurants and Hotels			110	17.7%		-60%	44
			622				450.9
							Change
							-28%

Business Licenses and Card Room Tax. This category was down because when a new home sells in Marina, it is subject to the City's Business Tax. New home sales have been down a bit. The most recent decline, however, was due to Card Room Business stopping.

All Others. This catch all category covers transaction fees from planning, building and recreation. Recreation has stopped and planning and building activity is somewhat less.

The COVID 19 impact for the City is dramatic in how it has slowed economic activity. For the remainder of this fiscal year, the City's General Fund revenues will be off about \$2.3 million or \$2.2 million from budget. As for the lingering impact of COVID 19, the greatest impact will be to the City's revenues. Table III shows what to expect if the COVID 19 impact remained at this level for a year, probably decreasing the City's General Fund revenues by almost \$8 million shown in, Table III, Full Year COVID 19 Impact on General Fund Revenues.

Table III
Full Year COVID 19 Impact on General Fund Revenues

	Current Year Forecast, FY 19/20						
	General Fund - Revenues						
	All Amounts in Thousands			FY 19/20			
Revenues				Budget	Forecast Mar 2020	Change from Budget	Change if continued for full year
	Property Tax			6,542	6,961	419	(696)
	Sales Tax			8,012	7,143	(869)	(2,381)
	TOT			4,160	2,991	(1,169)	(3,263)
	Business Licenses & Card Room			1,675	1,591	(84)	(491)
	Franchise Taxes			1,060	1,089	29	
	Housing Rents			2,231	2,170	(61)	(217)
				23,680	21,945	(1,735)	
	All Others			2,882	2,461	(420)	(848)
	Total			26,562	24,406	(2,155)	(7,896)

Notice that for this analysis the impacts start to spread to property tax revenues and Housing rents from Abrams and Preston Park. This assumption is made because eventually economic impacts in other areas will begin to drive down property values and people will be unable to pay their rent.

Expenditures. Overall, expenditures are projected to be substantially less than budget, by \$1.9 million. This positive variance is mainly due to vacant positions. If the positions are filled, the budgetary savings would not occur, as shown on Table I, Current Year Forecast, FY 19/20, General Fund – Expenditures. The scheduled is the Feb. 2020 forecast. The one adjustment that could be made is that Recreation expenditures will probably be down another \$70,000 because recreation is essentially closed, therefore the hourly costs for the remainder of the year has been eliminated.

Analysis of Major Variances.

City Manager - The budget had a large amount for legal costs. Although legal costs remain high, they are less than budget. These costs should decline over time.

City Attorney - Legal costs are higher than anticipated due to unusual litigation expenses.

Non-Departmental – Costs are higher than anticipated due to increased pension costs. These costs will persist.

Police – Police costs are less than budgeted as the department has had a large number of vacancies. These savings will decline as the Police fills all its positions.

Table II

	Current Year Forecast, FY 19/20								
	General Fund - Expenditures								
	Compared to Budget								
	All Amounts in Thousands								
Expenditures									
				FY 19/20				Percent of	
	Department			Budget		Forecast		Change	Total
100	Council			24		20		(4)	-17.9%
120	City Manager			2,012		1,650		(362)	-18.0%
125	I.T.			304		304		0	0.1%
130	Finance			850		850		(0)	0.0%
150	City Attorney			222		384		162	73.2%
190	Non-Departmental			7,694		7,850		156	2.0%
195	Conveyance			-		8		8	0.0%
210	Police			7,531		7,109		(422)	-5.6%
250	Fire			3,727		3,528		(199)	-5.3%
310	Public Works			2,090		1,450		(640)	-30.6%
410	Planning			871		871		0	0.0%
420	Engineering			899		601		(298)	-33.2%
430	Building Inspection			451		440		(11)	-2.3%
440	Economic Dev.			268		150		(118)	-43.9%
510	Recreation & Culture			1,103		1,060		(43)	-3.9%
	Total Expenditures			28,045		26,275		(1,770)	
	Planned Addition/(Use)								
	to Fund Balance			(1,719)		188			
Note: FY 19/20 had substantial one-time capital expenditures of \$2.3 million									

NOTE: Recreation costs should be about \$70,000 less because all Rec Hourly employees are idled as of Mid March.

Analysis of Major Variances. (Continued)

Fire – Fire was allocated 4 new firefighters this year. They have been hired at the end of February. The savings in this department will not continue.

Public Works - Employee costs in this division are partially offset by charges to the gas tax fund. It is expected that about \$300,000 annually will be charged to the gas tax fund. As a result, this budget should be reduced by \$300,000.

Economic Development – has a vacant position and budgetary savings.

The overall, the City is facing a \$1.8 million deficit for this fiscal due to the impacts of COVID-19. The length of this economic impact will greatly determine the length of this impact. If the COVID-19 impact continues, Finance estimates that the economic impact will be about \$8 million to the City of Marina.

	Current Year Forecast, FY 19/20				
	General Fund - Revenues				
	All Amounts in Thousands			FY 19/20	
Revenues				Budget	Forecast Mar 2020
	Total			26,562	24,406
Expenditures					
	Total Expenditures			28,045	26,210
	Revenues Over/(Under)				
	Expenditures			(1,484)	(1,804)

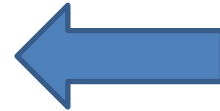
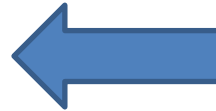
The City Council has set-aside monies for fiscal emergencies. As of 6/30/19, the City had set-aside \$4.6 million for emergencies. In addition, the Council had in the General Fund \$7.5 million in undesignated reserves. Thus, the Council has \$12.1 million available as the City address the COVID-19 event as shown on Table VI, General Fund Balance Components, 6/30/19.

The appropriate response depends upon the length of the COVID 19 revenue shock to the City's finances. The event will almost certainly last until the end of this fiscal year. Thus, the City is facing a \$1.8 million deficit, although the City originally budgeted a \$1.5 million deficit in anticipation of using its unallocated fund balance for capital projects.

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General Fund
Fund Balance Components
6/30/2019

	<u>General Fund</u>
Nonspendable:	
Prepaid Expenses	\$ 12,000
Total Nonspendable	<u>12,000</u>
Restricted:	
Economic Development	-
Debt Service	4,065
Capital Projects	-
Street & Special District	-
Community Development	-
Recreation	-
Public Safety	235,432
Total Restricted	<u>239,497</u>
Committed:	
OPEB	200,000
Library Maintenance	310,627
Future Vehicle & Equipment	
Replacement	2,055,000
Future Facility Repairs	500,000
Community Improvement	641,268
Employee Compensated	
absences	400,000
Pension Stabilization	950,000
Capital Projects	-
Emergency Reserves	4,587,543
Public Education	
Government	-
Total Committed	<u>9,644,438</u>
Unassigned	<u>7,528,302</u>
Total	<u>\$ 17,424,237</u>



The bigger concern is that is the current event continues well into next year and the City experiences an \$8 million loss of revenues, what should the City do? The range of options are:

- Funding some or all of the shortfall from undesignated fund balance or emergency reserves.
- Cancel one-time capital projects found on page 122 and 123 of the current budget. The City has over \$8 million in budgeted General Fund Projects.
- Consider service cut-backs. \$8 million represents 30% of the General Fund budget.
- Consider personnel actions, such as:
 - Freezing or closely reviewing all vacancies (It may be appropriate to continue to fill positions that will advance the City's purposes in planning and street work.)
 - Considering other personnel options such as layoffs and/or furloughs (These are not being recommended but would be consider if financial circumstances do no allow other options)

Summary

The economic impact of COVID-19 is dramatic and almost without precedent. The question will be now is how long the event will continue. Some indications are that after such an outbreak, the population after 12-18 months develops a collective immunity which greatly decreases the impact of the disease. This would require the nation to suffer through a prolonged disruption. At the same time, if the tourist industry is able to come back at all, the City's fiscal picture would markedly improve. Management recommends using reserves until the end of the fiscal year and consider all options before the beginning of FY 20/21 when the outlook is clearer.

For the remaining of the fiscal year, the City is facing a \$1.8 million loss. If the event continues for another year, the City will be facing another \$8 million loss in revenues.



FINANCIAL UPDATE

CITY OF MARINA

General Fund - Revenues

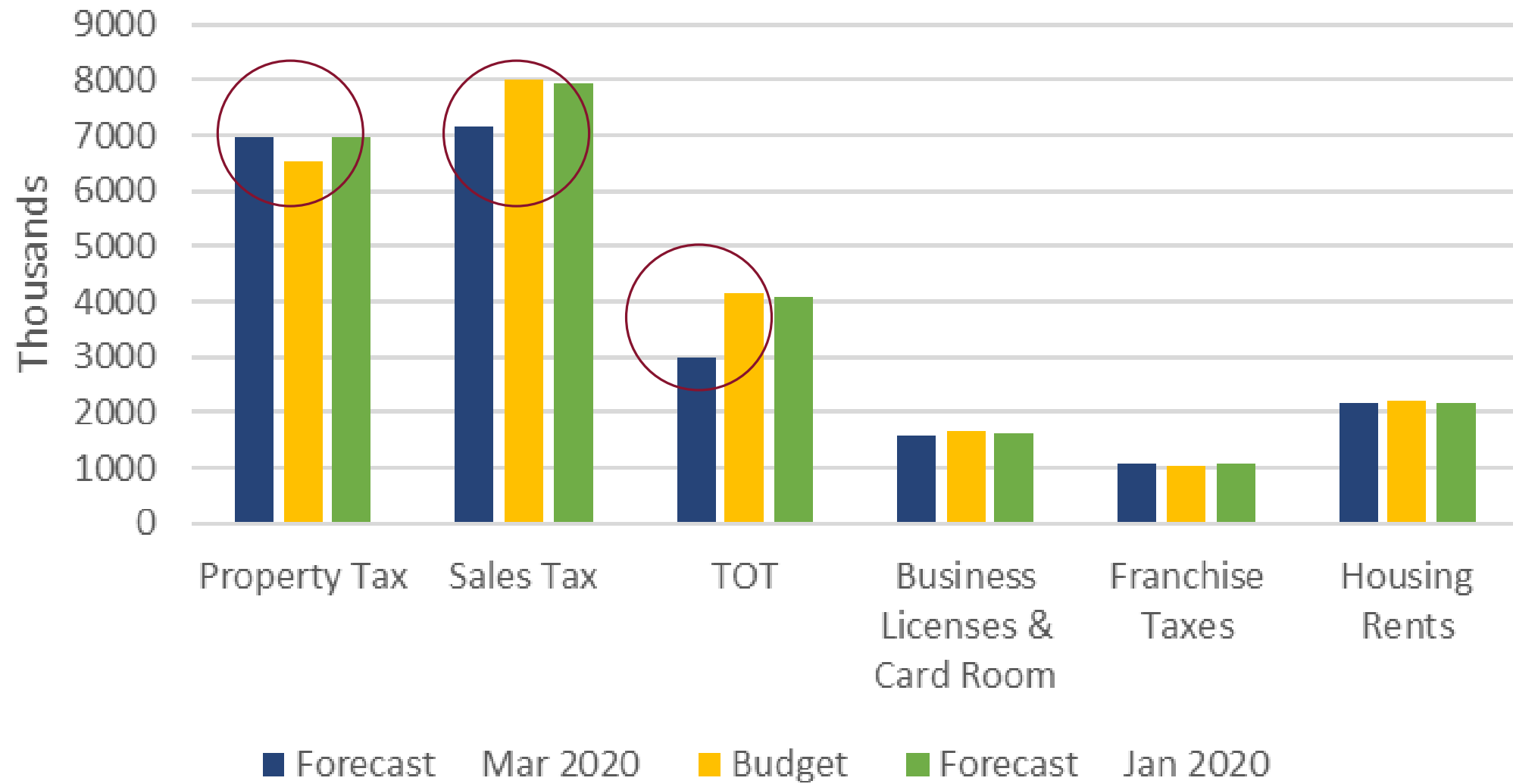
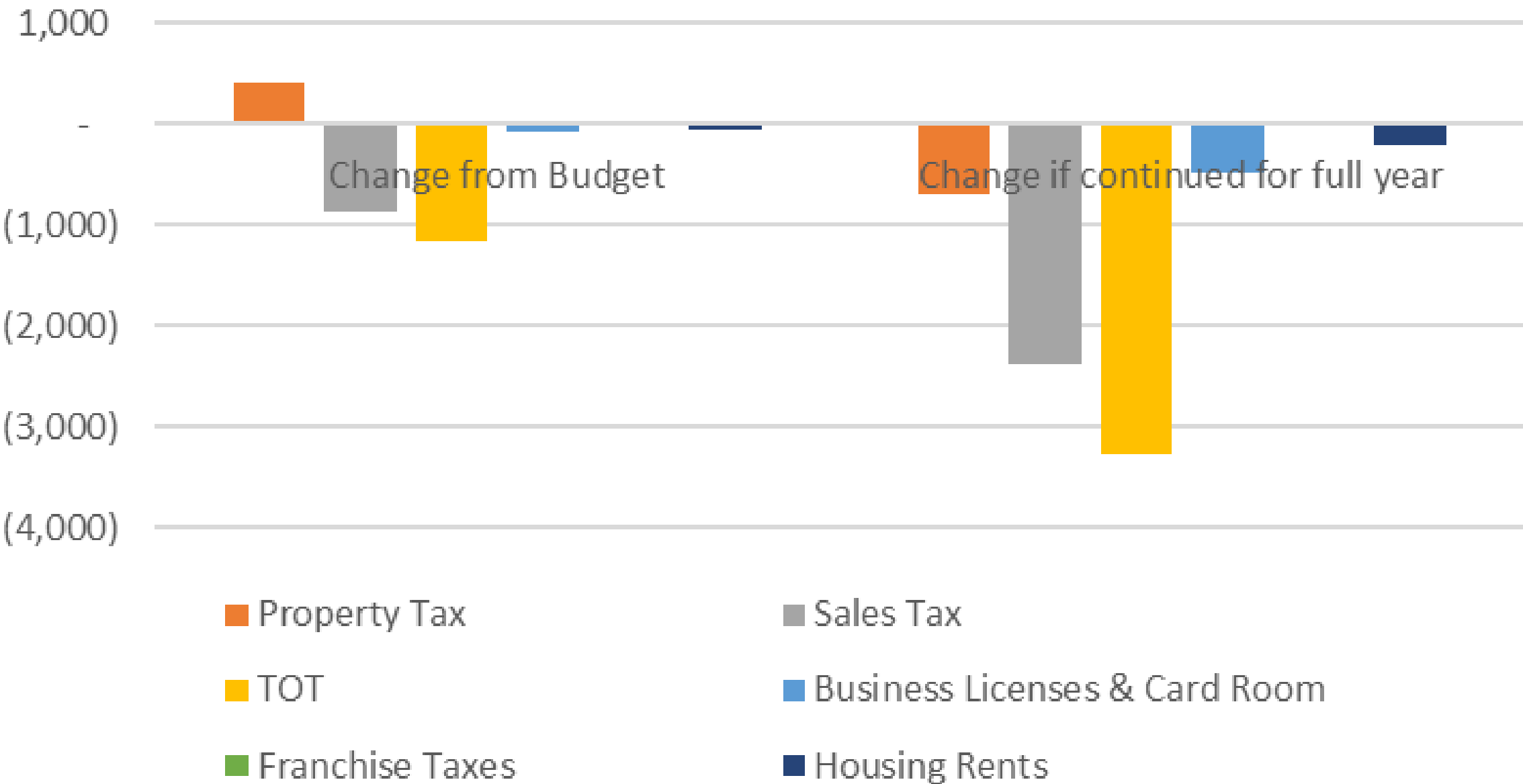


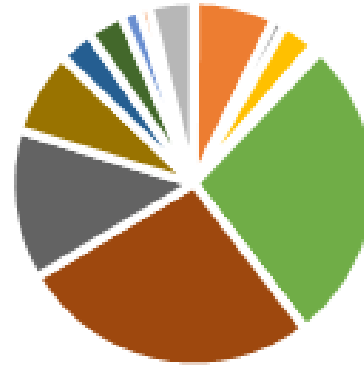
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			622				450.9
							Change
							-28%

Change for this fiscal year and next



General Fund Make Up



■ Council

■ Finance

■ Conveyance

■ Public Works

■ Building Inspection

■ City Manager

■ City Attorney

■ Police

■ Planning

■ Economic Dev.

■ I.T.

■ Non-Departmental

■ Fire

■ Engineering

■ Recreation & Culture

City of Marina

Non - Departmental

	2017 Actual Amount	2018 Actual Amount	2019 Amended Budget	2019 April Amount	2020 Proposed	2021 Proposed
Expenditures						
SB - Salaries and Benefits	48,667	21,921	78,175	16,423	1,210,000	1,400,000
SS - Services and Supplies	938,542	906,849	1,011,600	892,472	681,900	721,900
CO - Capital Outlay	1,585,100	14,084	-	-	-	-
DS - Debt Service	-	-	-	3,893	185,000	185,000
OFU1 - OFU - Other	-	306,370	-	-	-	-
OFU - OFU - Transfer	1,075,000	1,336,011	2,108,249	2,303,249	5,342,300	5,690,000
- To Vehicle Fund					812,000	905,000
- To Pensions					650,000	450,000
- To Capital Projects					3,880,300	4,335,000
- To Airport					12,000	12,000
Expenditure Totals	3,647,309	2,585,235	3,198,024	3,216,037	7,419,200	7,996,900

General Fund Balance June 30, 2019

	<u>General Fund</u>
Nonspendable:	
Prepaid Expenses	\$ <u>12,000</u>
Total Nonspendable	<u>12,000</u>
Restricted:	
Economic Development	-
Debt Service	4,065
Capital Projects	-
Street & Special District	-
Community Development	-
Recreation	-
Public Safety	<u>235,432</u>
Total Restricted	<u>239,497</u>
Committed:	
OPEB	200,000
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Future Vehicle & Equipment	
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Total Committed	<u>9,644,438</u>
Unassigned	<u>7,528,302</u>
Total	\$ <u><u>17,424,237</u></u>



POTENTIAL RESPONSES

- Until the end of the fiscal year
 - Use of emergency reserves and undesignated fund balance
 - Canceling Capital Projects
 - Personnel Actions
 - Review all vacant positions
- For next fiscal year
(Decisions in May or June)
 - Reserves
 - Canceling Capital Projects
 - Personnel Actions
 - Review all vacant positions
 - Service level changes
 - Personnel reductions

SUMMARY

- COVID – 19 is a revenue impact to the City
- Much depends upon the length of the impact – 3 months or 18 months
- City has some reserves to meet immediate needs
- Response until June
 - Reserves
 - Canceling projects
- Next Fiscal Year (end of May/June)
 - Reserves
 - Canceling projects
 - Service levels