

RESOLUTION NO. 2020-78

A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF MARINA ADOPTING THE FISCAL YEAR 2020-21 MID-CYCLE BUDGET ADJUSTMENTS, ESTABLISHING PROCEDURES FOR AMENDING THE BUDGET, AND AUTHORIZING THE FINANCE DIRECTOR TO TAKE ALL NECESSARY ACCOUNTING AND BUDGETARY ENTRIES

WHEREAS, the City and Agency budget is an estimation of resources, revenues and expenditures for a fiscal year period, which is July 1st through June 30th and;

WHEREAS, the City Council held multiple public meetings to discuss the proposed FY2020-21 budget in June 2020, and;

WHEREAS, the City Council approved its original Fiscal Year 2020-21 budget in June of 2019 as part of the City's two-year budget process, and;

WHEREAS, Staff made presentations and addressed questions, and Council provided direction.

NOW, THEREFORE, BE IT RESOLVED by the City Council of the City of Marina:

1. That the City Council adopts the General Fund changes as shown below and detailed in the accompanying staff report.

Net Balanced Budget Calculation									
1.	Require that the city manager submit a proposed balanced general fund budget for fiscal year 2012-2013 and each year thereafter; and								
2.	Agree that a proposed balanced budget shall be defined as the anticipated annual fiscal expenditures not exceeding the annual fiscal revenues less non-recurring fund transfers; and								
				Resolution 2012-46					
Proposed Budget									
Operating General Fund (100)									
All Amounts in Thousands				FY 19/20		FY 20/21		FY 20/21 Revised	
	Resources (Revenues and Transfers)			26,238		26,059		22,539	
	Uses (Expenditures and Transfers)			(27,770)		(28,411)		(24,476)	
	Net Uses			(1,532)		(2,352)		(1,937)	
	Add Back non-Replacement Vehicle Charges			507		580		580	
	Add Back Extraordinary Legal Costs							700	
	Add Back One-time Transfers to Capital			2,160		2,735		750	
	Amount Exceeding Balanced Budget			1,135		963		93	
				Revision Summary					
				Revenues					
				Revenue loss		-4000			
				Inc. Traffic Cita.		100			
				SAFER Grant		380			
						-3520			
				Exp.					
				Wage Reimburse.		450			
				No MOU inc.		200			
				Budget Red.		1200			
				Capital Reductions		2085			
						3935			

2. That City Council appropriates the following amounts in General Fund for FY 2020/21 for specific purposes as shown below:
 - \$45,000 for a contract to identify and eliminate institutional racism;
 - \$10,000 as a contribution to Casa de Noche Homeless Shelter in Seaside; and,
 - \$10,000 for food banks that support Marina residents.

These last three appropriations will reduce the General Fund balanced budget calculation from an excess of \$93,000 to \$28,000.

3. The Council reaffirms its policies and designations Emergency Reserve – The City will keep an emergency reserve equal to 20% of its annual operating budget.

Sub-fund designations. The City has created several sub-funds of the General Fund to set-aside money for various purposes. The monies placed in those funds are reserved for those purposes and can only be spent by a Council appropriation. The sub-funds designated by Council are:

- Vehicle Replacement Fund
- Other Post-Employment Benefits Fund
- Pension Stabilization Fund
- Library Fund

4. Establish procedures for amending the budget as follows:

BUDGET ADJUSTMENTS, REALIGNMENTS & AMENDMENTS

The Marina City Manager and Executive Director of the Successor Agency to the Marina Redevelopment Agency, or his/her designee, shall be authorized to modify the budget(s) hereby adopted as follows:

- a. transfer revenues/appropriations within General Fund department
- b. transfer revenues/appropriations within projects/departments of any fund
- c. transfer revenues/appropriations between/among General Fund departments
- d. transfer revenues/appropriations between/among projects/departments of any fund

Only the City Council or the Successor Agency to the Marina Redevelopment Agency Board of Directors shall be authorized to:

- a. Increase/decrease the total revenues/appropriation budget(s) of any fund
- b. Transfer cash, revenues and/or appropriations from one fund to another
- c. Authorize any interfund loan of cash or other resources
- d. Authorize expenditure, transfer, or encumbrance of the fund balance of any fund

5. Authorize the Finance Director to make all necessary and budgetary accounting entries.

BE IT FURTHER RESOLVED that copy(ies) of the adopted budget shall be available for Public viewing in the office of the City Clerk, and copy(ies) shall be filed as required by law.

PASSED AND ADOPTED by the City Council of the City of Marina at an adjourned regular meeting duly held on the 23rd day of June 2020, by the following vote:

AYES: COUNCIL MEMBERS: Berkley, O'Connell, Morton

NOES: COUNCIL MEMBERS: Urrutia, Delgado

ABSENT: COUNCIL MEMBERS: None

ABSTAIN: COUNCIL MEMBERS: None

Bruce C. Delgado, Mayor

ATTEST:

Anita Sharp, Deputy City Clerk

RESOLUTION NO. 2020-79

A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF MARINA AUTHORIZING THE
FINANCE DIRECTOR TO MAKE CERTAIN POST-YEAR-END ACCOUNTING
ADJUSTMENTS TO THE FY 2019-20 AND FY 2020-21 BUDGETS

WHEREAS, in adopting the 2020-21 fiscal year budget, actual 2019-20 revenues, expenditures, encumbrances, fund balances, existing (continuing) contracts and other carry-overs are necessarily unknown; and

WHEREAS, after the 2019-20 fiscal year-end, various audit and accounting accruals, deferrals and other adjustments must be made based on information not available at year end; and

WHEREAS, routine, required post year-end adjustments could cause inadvertent budget variances that could be avoided except that such adjustments cannot be known in advance; and

WHEREAS, inadvertent budget variances might result in unnecessary adverse audit comments.

NOW, THEREFORE, BE IT RESOLVED that after the 2019-2020 fiscal year has been closed and year-end adjustments recorded to reflect actual amount(s) of carryover balances, revenues, expenditures, encumbrances and continuing contracts for authorized programs and activities, the City of Marina Finance Director shall record such budget adjustments and realignments for the 2019-20 and 2020-21 fiscal year(s) budget(s) necessary to reflect carry-forward items and avoid inadvertent variances.

PASSED AND ADOPTED by the City Council of the City of Marina at an adjourned regular meeting duly held on the 23rd day of June 2020, by the following vote:

AYES: COUNCIL MEMBERS: Berkley, O'Connell, Morton

NOES: COUNCIL MEMBERS: Urrutia, Delgado

ABSENT: COUNCIL MEMBERS: None

ABSTAIN: COUNCIL MEMBERS: None

Bruce C. Delgado, Mayor

ATTEST:

Anita Sharp, Deputy City Clerk

Honorable Mayor and Members
of the Marina City Council

Special City Council Meeting
of June 16, 2020

**CITY COUNCIL CONSIDER ADOPTING RESOLUTION NO. 2020-,
ADOPTING FISCAL YEAR 2020-21 BUDGET, ESTABLISHING
PROCEDURES FOR AMENDING BUDGET, AND AUTHORIZING THE
FINANCE DIRECTOR TO MAKE NECESSARY ACCOUNTING AND
BUDGETARY ENTRIES; CONSIDER ADOPTING RESOLUTION NO. 2020-,
AUTHORIZING FINANCE DIRECTOR TO MAKE CERTAIN POST YEAR-
END ACCOUNTING ADJUSTMENTS TO FY 2019-20 AND FY 2020-21
BUDGETS**

REQUEST:

It is requested that the City Council:

- 1) Approve the budget adjustments as outline in the staff report;
- 2) Consider the budget amendments as proposed by Mayor Delgado and Councilman Urrutia;
- 3) Consider any other adjustments as proposed by Council;
- 4) Reaffirm Council policies on the General Fund emergency reserves and subfunds of Vehicles, Pension Stabilization, Other Post Employment Benefits and Library Maintenance; and,
- 5) Authorize the Finance Director to make accounting adjustment to reflect Council's direction.

BACKGROUND:

On June of 2019, the City Council adopted a two-year budget. This month, the City Council has reviewed that budget and determined that given the economic impacts of the COVID-19 pandemic, it is necessary to make budget adjustments to maintain a fiscally sound budget. The budget adjustment options were reviewed at the City Council meeting on June 16, 2020. That memo is attached as **Exhibit A**.

Without intervention, the City was facing in its General Fund, a \$6.3 million deficit spending budget, as shown in Table I, General Fund Budget Calculation without Expenditure Adjustment.

Table I
General Fund Budget Calculation without Expenditure Adjustment

Net Balanced Budget Calculation									
1.	Require that the city manager submit a proposed balanced general fund budget for fiscal year 2012-2013 and each year thereafter; and								
2.	Agree that a proposed balanced budget shall be defined as the anticipated annual fiscal expenditures not exceeding the annual fiscal revenues less non-recurring fund transfers; and								

Instead, the Council has reviewed the budget and proposes to make the following adjustments to ensure it adopts a balanced budget. as shown in Table II, Revised General Fund Budget for FY 2020/21.

Table II
Revised General Fund Budget for FY 2020/21

Net Balanced Budget Calculation						
1.	Require that the city manager submit a proposed balanced general fund budget for fiscal year 2012-2013 and each year thereafter; and					
2.	Agree that a proposed balanced budget shall be defined as the anticipated annual fiscal expenditures not exceeding the annual fiscal revenues less non-recurring fund transfers; and					
				Resolution 2012-46		
Proposed Budget						
Operating General Fund (100)						
All Amounts in Thousands		FY 19/20	FY 20/21	FY 20/21 Revised		
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				Revision Summary		
				Revenues		
				Revenue loss	-4000	
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					-3520	
				Exp.		
				Wage Reimburse.	450	
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				Budget Red.	1200	
				Capital Reductions	2085	
					3935	

Explanation of Changes

Revenues

1. The forecast for next year is a \$4 million loss of General Fund revenues due to COVID-19.
2. In reviewing the budget, Police is at full staffing and is able to field a traffic officer. The expected revenue increase by having an officer enforcing traffic laws is \$100,000. If the officer is no longer assigned to traffic, the revenue would decrease but so would expense by a similar amount because the department would be working with vacant positions.
3. The Fire Department received a three-year grant to partially fund 4 added firefighters. The grant was awarded to the City after the adopted its budget.

Expenditures

1. In reviewing the budget, staff recognized that certain wage reimbursements into the General Fund were not being shown on the budget. As a result, the wage reimbursements need to be shown. The wage reimbursements come from charges to the Gas Tax fund for maintenance personnel working on streets and from the former Redevelopment Agency or Successor Agency for work done by staff.
2. Given the steep decline in revenues, the Council does not feel it is in a position to grant additional MOU wage increases this year. Employee groups have been communicated that message.
3. The City Manager has proposed specific budget reductions totaling \$1.2 million as summarized below in Table III, Recommended Budget Solutions.

Table III
Recommended Budget Solutions

Recommended Budget Solutions			
Freeze some Open Positions	0.45		
Probably Retirements or turnover	0.30		
Reduce non-personnel costs	0.10		
Delete Special Events	0.10		
Cut Travel budget half	0.05		
Recreation Program - Hourly at 1/2 of original plan	0.15		
Cut part-time Police Staff	0.05		
	Total		1.20

4. The City Manager also recommends that the following capital projects be deleted from the General Fund as shown in Table IV, One-time General Fund Capital 20/21.

Table VII
One-time General Fund Capital 20/21

City of Marina One-time General Fund CIP, FY 20/21			
Project	General		Recommended
City Hall and Anex Center Reconfiguration	335,000		-
Dunes Barracks Stabilization and Fire Station #3	400,000		-
Arts Village Building Stabilization	1,350,000		-
Retention Basin Annual Water Monitoring	25,000		25,000
Streetlight Replacement	125,000		125,000
Traffic Signal Maintenance and Upgrades	100,000		100,000
General Plan	500,000		500,000
	Total		750,000

With these adjustments, the City Manager submits the revised budget as meeting the requirements of Resolution 2012-46 with the understanding that an unusual budget adjustment has been made for one-time legal costs in the City Manager's budget (\$700,000).

Budget Amendment Proposals

At the June 9, 2020 City Council meeting, several budget amendment proposals were proposed that need Council action. The proposals are as follows:

Budget Proposal #1

Councilmember Urrutia believes there is more money that may be coming the City's way. As a result, wishes to consider proceeding ahead with some actions, namely:

The City manager has proposed to freeze certain positions as part of a cost saving effort. Councilman Urrutia proposes that certain positions be hired after the Nov. 2020 election if the commercial and industrial property tax reassessment initiative passes. The Secretary of State's website provides the following about the qualified proposition:

1851. (17-0055, Amdt.#1)

REQUIRES CERTAIN COMMERCIAL AND INDUSTRIAL REAL PROPERTY TO BE TAXED BASED ON FAIR-MARKET VALUE. DEDICATES PORTION OF ANY INCREASED REVENUE TO EDUCATION AND LOCAL SERVICES. INITIATIVE CONSTITUTIONAL AMENDMENT.

Summary Date: 02/20/18

Final Random Sample: [10/15/18 \(PDF\)](#)

ELIGIBLE: 10/16/18

Signatures Required: 585,407

Proponents: Anthony Thigpen, Helen Hutchison, Benjamin McBride

Taxes certain commercial and industrial real property based on fair-market value—rather than, under current law, the purchase price with limited inflation. Exempts agricultural property and certain small businesses. Dedicates portion of any increased revenue to local services and to supplement, not replace, state's minimum-funding guarantee to schools. Provides tax exemption for \$500,000 worth of tangible personal property used for business and all personal property used for certain small businesses. Summary of estimate by Legislative Analyst and Director of Finance of fiscal impact on state and local government: **Net increase in annual property tax revenues of \$6.5 billion to \$10.5 billion in most years, depending on the strength of real estate markets. After paying for county administrative costs and backfilling state income tax losses related to the measure, the remaining \$6 billion to \$10 billion would be allocated to schools (40 percent) and other local governments (60 percent).** ([17-0055](#).)

If the proposition passes, it appears Marina would gain \$2 million a year in new property tax revenues.

The budget proposal then would be:

#1 If the qualified revision of commercial and industrial property tax assessment proposition passes in November of 2020, the City will proceed to hire the following positions:

Position	Budgeted Cost
Economic Dev.	132,295
Building Insp.	88,188
Sr. Planner	133,622
Total	354,105

The actual cost of the proposal for FY 20/21 would be something on the order of \$175,000, about half of the salary cost because it will take time to hire these individuals and the proposition's money will not come to the City before the next fiscal year.

Budget Proposal #2

Instead of reducing the Recreation Budget by \$150,000, direct the Director of Recreation to bring back proposals to deploy the proposed \$150,000 in ways that benefit the residents of Marina in such activities to include hiring our existing rec staff to do community organizing like Monica has done. This could be helping people who can't leave their homes to access food, providing para transit, phone banking the public to educate them about district elections, educate the public about community service offerings, calling businesses to educate them about potential changes to business license fees, working with businesses to help them comply with social distancing protocols.

#2 Redeploy the proposed cut in Recreation budget towards other programs for the benefit of the community, particularly during the COVID-19 event.

Cost: \$150,000 from General Fund balance. The cost of the program could be recouped to the General Fund is a qualified State-wide proposition passes in November.

Budget Proposal #3

Casa Noche Buena in Seaside provides a homeless shelter. Their website states the following:

Casa de Noche Buena will provide guests with a warm, safe place to stay while receiving intensive case management and supportive services, including linkages to employment and housing and mental health and substance abuse services based upon their individual needs.

The shelter will feature 10 bedrooms, a laundry room, a kitchen, a multi-purpose dining room, a lounge, 5 full baths, including 2 family bathrooms with tubs, 2 offices and a lobby/reception area. There will be two respite beds for medically fragile hospital discharges. The shelter will accommodate between 28 and 36 people depending upon the ages of the children.

Source: <https://chservices.org/homelessness/casa-de-noche-buena/>

The non-profit organization Community Human Services that operates the shelter has asked all the cities on the peninsula to contribute \$1 per resident. This request was previously made to the City Council, and the Council pointed out that under this type of formula, the wealthier cities on the peninsula with much larger tax bases would pay much less per capital than cities such as Marina with much smaller tax bases.

#3 Contribute \$22,000 to Casa Noche Buena for Fiscal Year 20/21 in recognition that this agency helps provide shelter to homeless, which could include individuals from Marina.

Cost: \$22,000 from General Fund Balance

Budget Proposal #4

Mayor Delgado has pointed out that individuals from Marina are benefiting from food distributions in Marina. The City has been conducting these food distribution program since March, 3 days a week. Two of these days' have food sourced from the Food Bank of Monterey County. The food bank's website shows the following:

Food Bank for Monterey County
COVID -19 Drive-Thru Weekly Distribution Sites



Coastal & Carmel Valley
June / Junio 2020

Marina
Every Monday / Cada Lunes 9:30 a.m. - 10:30 a.m 188 Seaside Avenue
Every Friday / Cada Viernes 1:00 p.m. - 3:00 p.m 294 Hillcrest Ave.

Source: <https://foodbankformontereycounty.org/wp-content/uploads/2020/06/6-JUNE-COVID-19-Coastal-Counties-2.pdf>

#4 Contribute \$10,000 to the Food Bank of Monterey County as a way to support a program that is distributing substantial commodities to households in Marina.

Cost: \$10,000 from the City's General Fund Balance

Budget Proposal #5

Recent events, starting with the death of George Floyd, have focused America on the problem of Racism. Mayor Delgado's proposal is to seek a consultant who will examine the City's practices and recommend methods to overcome institutional racism. Staff would publish a Request for Proposal seeking an expert to assist the City in improving its understanding and eradication of institutional racism.

#5 Release a request for proposal seeking a consultant to examine the City's practices and processes and recommend changes to eradicate institutional racism in the City of Marina's organization.

Cost: The RFP would set the consultant contract at \$20,000. The program would be funded by the City's General Fund Balance.

Council Request for Additional Information.

Councilman O'Connell asked about the age of the City's street sweeper that is proposed to be replaced for \$220,000. The street sweeper is more than 13 years old. Over the life of the vehicle, more than \$100,000 in repairs have been made. In the last two years, \$44,000 of the \$100,000 has been spent. Because of the caustic environment the sweeper works in, the metal rusts, the rubber hoses become brittle and decay and the mechanism fails more often. Staff recommends buying this piece of equipment. and for the last several years, has been broken down and not available for service several times in the year for several weeks each time. Staff is working to gather additional information.

Mayor Delgado asked how to move the pump track at Gloria Jean Tate Park forward. The main problem is that the pump track does not have all its funding in place. It needs another \$50,000 in donations or grant funding. Further, the project's design needs to be accomplished.

Mayor Delgado asked to see what vehicles are not in the current vehicle fund. To recap, the plan has been that when vehicles are not in the vehicle fund, when they are replaced, the City would begin paying depreciation in addition to making that one-time capital contribution. The current annual depreciation contribution is \$325,000 a year. When all the vehicles are in vehicle fund, the annual

General Fund Depreciation will be \$425,000. The vehicles that are not currently in the replacement program as shown below:

Vehicle Number	Department	Vehicle Make	Model Year	2019 Est. Replacement Cost	Note
956	Community	2008 Ford Ranger Supercab XLT	2008	\$31,837	
862	Replacement	2003 Ford F-250 Truck	2003	\$58,720	
5411	Fire Dept.	2007 MF FERRARA IGNITER	2007	\$635,604	
5412	Fire Dept.	1998 Spartan Ferrera	1998	\$600,000	
5461	Fire Dept.	1988 Ford Marion Type 2 Medical	1988	\$1,000,000	To be replaced by a truck if grant funding can be secured.
5413	Fire Dept.	1994 Pierce Saber	1994	\$600,000	First replacement installment in 2021
5431	Fire Dept.	2003 International Wild land Engine	2003	\$324,911	
878	Police	Community Service Truck	2008	\$28,638	
886	Police	2012 Chevrolet Colorado	2012	\$33,487	
520	Public Works	2008 Ford F-350 Flat Bed	2008	\$39,539	
521	Public Works	2009 F-350 XL SUPER DUTY Utility Bed	2009	\$42,941	
551	Public Works	2015 F-250 4x4 Truck	2015	\$27,799	
591	Public Works	1999 Ford F-450 Lift Truck	1999	\$207,703	Lift has failed electrical ground test and can no longer be used for Traffic Signals and Streetlights.
594	Public Works	2003 Ford F-350 XL Utility Bed	2003	\$46,045	
595	Public Works	2006 Ford F-450 4x2 Flat Bed	2006	\$54,750	
596	Public Works	2006 F-150 Pickup Truck	2006	\$24,314	
597	Public Works	2007 F-250 Pickup Truck w/Lift gate	2007	\$28,462	
360	Parks & Rec	2009 FORD ESCAPE HYBRID	2009	\$38,040	
605	Parks & Rec	2007 Ford Ranger Truck	2007	\$19,062	
607	Parks & Rec	2012 FE350 Van 13-PASSENGER	2012	\$34,015	
608	Parks & Rec	2013 Ford E-350 XL Ext Van	2013	\$34,015	
			Total	\$3,909,881	

Several councilmembers wanted to have an improved Council Priorities document. Councilwoman Morton suggested that the document show which items are mandatory and which are discretionary. City Manager Long is revising the document and will present it to Council with ideas about how to seek public input.

Policy Reaffirmations.

The City has several policies on how it manages its General Fund Balance. The purpose of this section is to reaffirm those policies, namely:

Emergency Reserve – The City will keep an emergency reserve equal to 20% of its annual operating budget.

Sub-fund designations. The City has created several sub-funds of the General Fund to set-aside money for various purposes. The monies placed in those funds are reserved for those purposes and can only be spent by a Council appropriation. The sub-funds designated by Council are:

- Vehicle Replacement Fund
- Other Post-Employment Benefits Fund
- Pension Stabilization Fund
- Library Fund

Matters still to be resolved

The City Council has adopted a two-year budget in June of 2019. No action is necessary now because a budget has already been adopted for FY 2020/21. However, due to changes in the fiscal situation of the City, changes have been recommended. Remaining reviews that the City still needs to accomplish include:

- A review of the Preston and Abrams Parks budgets;

- A plan for how to deploy the bond proceeds from the FORA Blight Removal Bonds. \$8.5 million is immediately available and potentially another \$6.5 million may be available in the future depending upon the growth in tax increment; and,
- A review and revision of the Council Priorities Document.

These items will shortly be brought to Council.

FISCAL IMPACT: The actions recommended in the report will allow the City to function in a fiscally responsible manner.

CONCLUSION:

This request is submitted for City Council consideration and possible action.

Respectfully submitted,

Eric Frost
Finance Director
City of Marina

REVIEWED/CONCUR:

Layne P. Long
City Manager
City of Marina

EXHIBIT A

Date: June 3, 2020
Honorable Mayor and Members
of the Marina City Council

Item No:
City Council Meeting
of June 2, 2020

DICUSSION ITEM TO CONSIDER MID-CYCLE ADJUSTMENT TO FISCAL YEAR 2020/21 BUDGET AND TO PROVIDE APPROPRIATE DIRECTION FOR ADOPTION CONSIDERATION AT THE COUNCIL'S JUNE 16, 2020 MEETING.

REQUEST:

Discussion and recommendations for proposed changes to consider the FY 20/21 Budget. No action will be taken at this meeting. It is proposed that the Council may consider adoption of budget revisions at their June 16, 2020 meeting. The actions that would be considered at that meeting would include:

- 1) Adopt budgetary changes necessary to balance the 2020/21 budget.
- 2) Approve the prop. 4 spending-limit
- 3) Approve the Council reserve designations

Background and Analysis

The City adopted a two-year budget in June of 2019. The City's general budget is in place, but as with all financial plans, it should be adjusted for current events. The biggest event since the June 2019 budget adoption is the COVID-19 shelter in place order. This order has brought business activity to a standstill, particularly industries based upon leisure or gathering. Some 25% of the US economy depends upon such activities which have been brought to an abrupt halt.

Fortunately, we are starting to see some reopening of businesses that were once closed. However, it will take some time to bring back some of these businesses, particularly large gathering special events and conventions. As a result, although some recovery is expected, the City should expect reduced revenues in this next year.

Resolution 2012-46 requires that the City Manager present a balanced General Fund budget to Council. When the City adopted the current budget, the FY 20/21 budget had a surplus of almost \$2 million dollars according to Resolution 2012-46. Things have changed. If the current COVID 19 restrictions remained for the full year, the City's General Fund would have an \$8 million reduction in revenues. We don't believe this will be the case. While the State is beginning to open up economic restrictions, we still believe it could take a year or longer for our city revenues to recover. As a result, the working hypothesis is that the City should expect a \$4 million revenue loss in FY 2020/21.

When will the economy recover?

Deciding on what to expect in revenues is the first part of the budget process. This forecast relies upon what type of recovery will occur as the nation emerges from shelter in place orders. Chart I, Recovery Alphabet, illustrates various types of recoveries.

At the beginning of the COVID 19 event, economist suggested that the recovery might be a V-shaped economic event, sudden drop down and a quick recover. The thinking was that nothing physically has been destroyed and that all we had to do was put out a sign saying, "let's go back to normal."

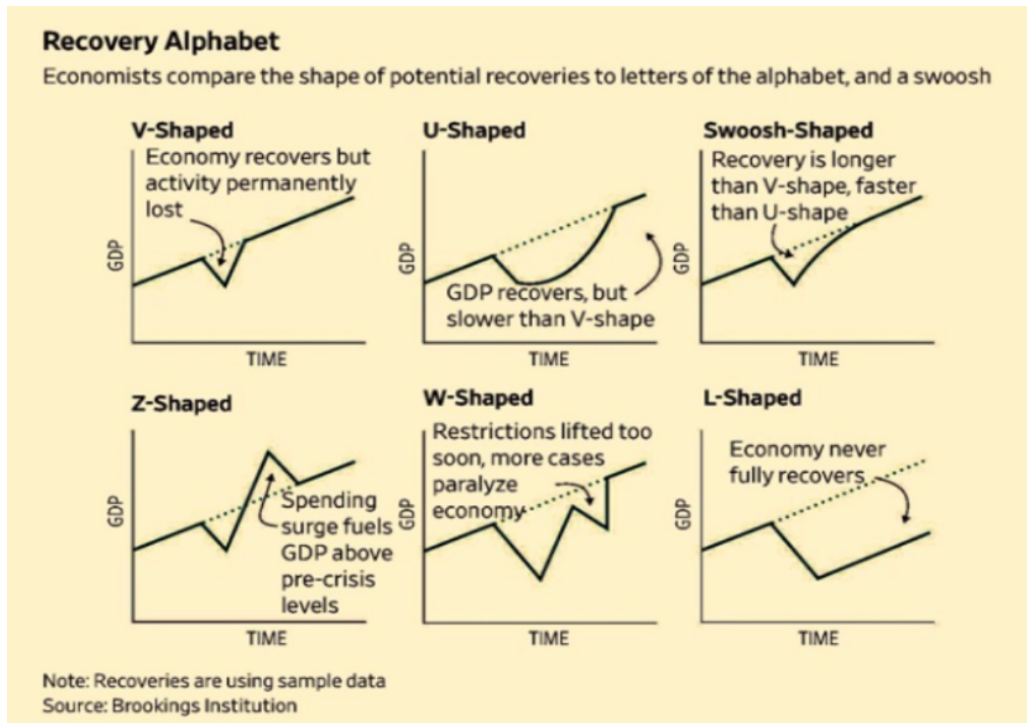
As events have unfolded, this does not appear to be the case. We now know that some businesses can go back to work almost without change such as construction. Because they are outdoors, they mainly need to concern themselves with creating some new social distancing protocols and then they are off and running. Retail stores and restaurants are beginning to re-open and this will continue to be a

phased approach. Indications are that the State will begin moving into phase 3 in the near future which will allow more businesses to reopen. Hotels are lucky to have 20% occupancy whereas in the past they might be at 80% because tourist travel is not allowed yet. Thus, from our Recovery Alphabet chart a Swoosh-shaped recovery appears most likely.

The next question is how long the swoosh will continue. Three factors come into play, namely:

- 1) When might a vaccine become widely available?
- 2) If a vaccine is not available, when would enough people become immune to the disease in order to provide herd immunity?
- 3) When will consumer psyche recover sufficiently to want to go out in a group setting?

Chart I



A vaccine usually takes a year to develop. Given the emphasis on developing a vaccine quickly, we might see a vaccine this fall. So, our timeframe for a vaccine is fall to spring.

For herd immunity to occur, a majority of the communities' individuals need to be exposed and overcome the disease. Coronavirus spread has been greatly arrested but the disease frequently does not present any symptoms in health adults. It would not be unusual for herd immunity, the condition when a majority of individuals in the community have overcome the disease, to take 12-18 months. Finally, the psyche of the consumer is the biggest issue. Given that people are uncertain as to how to act, it appears appropriate to assume it will take some time for consumers to be comfortable in acting as they did before the pandemic.

Given these factors, Finance is using a working assumption that it will take at least the next fiscal year for the economy to substantially recover. This is consistent with the forecast Finance made in its March 2020 forecast of City financial losses, shown in [Attachment A, Mid-Year Financial Forecast](#). Thus, instead assuming a \$8 million revenue loss, the high-end forecast, Finance recommends using a \$4 million loss revenue budget next year. At the same time, we expect other communities to take longer to recover because they may be much more dependent upon tourism (Monterey and Pacific Grove) or car sales (Seaside).

It is also significant to note that entering the current budget shock, the City had fully funded its emergency reserve (\$4.6 million) and had an undesignated General Fund balance of \$7.5 million, a total of \$12.1 million, also discussed in the March 2020 memo.

Calculating the Expected Budget Shortfall.

Marina took a conservative approach with the current budget and did not commit all its revenues to ongoing projects and is facing a budget shortfall much less than \$4 million. Table I, Adopted Net Balanced Budget Calculation, provides an indication of the magnitude of the challenge facing Marina, about \$2.1 million.

Note the following in the General Fund:

- 1) The original budget projected \$26.1 million in revenues. The revised budget revenues are \$22.1.
- 2) If left unchanged, the City would have a \$6.4 million deficit. Now, the City's Balanced Budget Resolution 12-46 allows for the spending of one-time capital outside the balance budget amendment, reducing the number required to meet 12-46. However, the large amount of capital was a function of the City's ability to acquire more capital because of past accumulated balances. That assumption needs to be reexamined.
- 3) In preparing the new budget, finance reviewed major changes in the budget and recommends four adjustments, namely:
 - a. Recognize that the City was awarded a three-year SAFER grant for increased personnel. That grant will continue until 2023, adding \$380,000 to the General Fund's budget. In 2024, the City will need to absorb this cost for the 4 grant firefighters.
 - b. Because Police is fully staffed and the Council has adopted a new traffic study which will permit radar enforcement, the department has been able to start up their traffic division again. This will lead to an additional \$100,000 a year in fine revenue to the City.
 - c. Since the City is facing significant revenue losses, it is difficult to grant additional MOU increases this year. The \$200,000 that was set-aside for salary increases may be removed.
 - d. In reviewing the budget, the General Fund provides personnel time to the former redevelopment agency and the gas tax fund. These costs in the other funds are a reimbursement to the General Fund. This is not reflected in the current budget. As a result, the reimbursement should be reflected, reducing the balanced budget deficit.

Table I
Adopted Balanced Budget Calculation

Net Balanced Budget Calculation								
1.	Require that the city manager submit a proposed balanced general fund budget for fiscal year 2012-2013 and each year thereafter; and							
2.	Agree that a proposed balanced budget shall be defined as the anticipated annual fiscal expenditures not exceeding the annual fiscal revenues less non-recurring fund transfers; and							

The revised budget, before adjusting service and capital investment is shown in Table II, General Fund Summary, Fiscal Year 2020/21. Table III, Detailed General Fund, FY 2020/21, provides breaks down the summary further.

Table II

General Fund Summary	
All Amounts in Thousands	
Fiscal Year 2020/21	
Rev.	22,539
Op. Exp.	(22,071)
Over/(Under)	468
Ongoing	
Ca. & Trans.	(2,375)
One-time	
Capital	(3,315)
Reduction in	
Fund Balance	(5,222)

Table III
Detailed General Fund Summary

Recap of Revised 20/21 General Fund Budget			
All Amounts in Thousands			
<u>Budgeted Revenues</u>			
Original Estimate		26,059	
Covid reduction		(4,000)	
<i>Revised Revenue amount</i>			22,059
Add SAFER Grant		380	
Add Traffic Citations		100	
			480
	Revised Revenues		22,539
<u>Budgeted Expenditures</u>			
Original Estimate		(28,411)	
Less: One-time capital		3,090	
Less: Ongoing street funding		1,600	
Less: Ongoing Vehicle Dep. Charge		325	
Less: Pension Stabilization Charge		450	
Operating Budget			(22,946)
<i>Recommended Revisions</i>			
Reduced budgeted salaries - MOU		200	
Reflect staff reimbursements		450	
			650
	Revised Operating Exp.		(22,296)
	Oper. Surplus/(Shortfall)		243
Budgeted Ongoing Capital and other Charges			(2,375)
Budgeted One-time Capital			(3,090)
	Total Shortfall		(5,222)

Recommend Budget Actions

- 1) Make budget revisions sufficient to meet the Balanced Budget Resolution; and,
- 2) Review the one-time capital to determine if the project should continue. As a matter of fact, all one-time capital will probably come from City fund balance.

Recommended Actions

The proposed actions and alternatives are discussed further in the report. However, the proposed plan to have a balanced budget according to Resolution 2012-46 is shown in Table IV, City Manager Proposed Balanced Budget Alternative.

Table IV
City Manager Proposed Balanced Budget Alternative

General Fund Summary		Proposed	FY 20/21
All Amounts in Thousands		Changes	Proposed
Fiscal Year 2020/21			
Rev.	22,539	-	22,539
Op. Exp	(22,071)	(1,300)	(20,771)
Over/(Under)	468	(1,300)	1,768
Ongoing			
Cap & Trans.	(2,375)	-	(2,375)
One-time			
Capital	(3,315)	(2,265)	(1,050)
Reduction in			
Fund Balance	(5,222)	(3,565)	(1,657)
	Projected Available Fund Balance 6/30/20		10,000
	Projected Available Fund Balance 6/30/21		8,343

After adjusting for better budget accounting for new grants and proper staff reimbursements, the current 20/21 budget is projected to use \$5.2 million of the City's \$10.0 in available fund balance. Available fund balance is the emergency reserve plus undesignated fund balance. This number was \$12.1 million as of June 30, 2019, but Finance is estimating \$2.1 million will be used to cover shortfalls in FY 19/20.

The plan envisions making \$1.3 million in operating reductions and \$2.3 million in capital reductions. The plan would still use \$1.7 million of fund balance, mainly for highly need capital expenditures and unusual but anticipated legal costs.

City management has met with all the departments and discussed strategies for achieving these budget revisions. The proposed revisions and alternatives are further discussed below.

Expenditure Reductions.

Table V, General Fund Expenditure Reductions, shows what potential expenditure reductions were consider and which ones are recommended. Total expenditure reductions represent \$1.3 million.

Table V
General Fund Expenditure Reductions
FY 2020/21

Recommended Budget Solutions			
Freeze some Open Positions	0.45		See list
Probably Retirements or turnover	0.30		
Reduce non-personnel costs	0.10		line-items
Delete Special Events	0.10		
Cut Travel budget half	0.05		
Cut Recreation Special Events	0.10		
Recreation Program - Hourly at 1/2 of original plan	0.15		
Cut part-time Police Staff	0.05		
	Tota	1.30	
Options considered but not recommended			
Reduce Recurring transfers	0.88		(Pension Stabilization (\$450k) and new GF Capital Cont. (\$325k) due to Enterprise contract)
5% Personnel Reduction	0.70		5% staffing reduction or 5% furloughs for year
Freeze Assoc. Engineer Position	0.13		Replaces contract that costs \$140 an hour
		1.71	

The proposed positions to freeze are as follows in Table V - a, Potential Open Positions to be Frozen.

Table V - a
Potential Open Positions to be Frozen

Vacant Positions			
Freeze		Full Cost	
	CM Intern	14,548	
	Economic Dev.	132,295	
	Executive Asst.	90,000	
	Building Insp.	88,188	1
	Senior Planner	133,622	
	Assoc. Engineer	130,000	2
	Fin. Intern	15,598	
	Fin. Extra Help	25,727	
	Maintenance W. I	75,051	
Add Back			
	Streets Superintendent	(130,000)	
	Assoc. Engineer	(130,000)	
Net Savings			
		445,029	
1 Assumes Bldg Official able to inspect			
2 Costs less than CSG contract			

Review of Recurring Transfers

The recurring capital and other transfers from the General Fund are three, namely:

Street Maintenance	\$1,600,000
Pension Stabilization	\$450,000
Vehicle Depreciation	<u>\$325,000</u>
	\$2,375,000

These monies are set aside to assure the continue operation of the City and the maintenance of City streets at a 70 PMI level. Although the amounts could be decreased, ***management does not recommend any changes to these transfers.***

Table VI, Vehicle Replacement, shows the list of vehicles to be replaced.

Table VI
Vehicle Replacement

Recommended FY 20/21 Vehicle Replacements				
Department	Replacement Vehicle	Replacement + Outfitting Cost	Accumulated Amortization (Vehicle Fund)	Remaining Amount (General Fund)
PD	Chevrolet Caprice	\$71,500	\$71,500	\$0
PD	Chevrolet Caprice	\$71,500	\$71,500	\$0
PD	Chevrolet Caprice	\$71,500	\$71,500	\$0
Fire	4x4 Utility	\$60,000		\$60,000
Fire	Type 1 Engine	\$300,000		\$300,000
PW	Street Sweeper	\$220,000		\$220,000
Total FY 20/21=		\$794,500	\$214,500	\$580,000

Management recommends purchasing the General Fund vehicles. The vehicles are essential the provision of City services. Please note that the Fire engine is the first of a two-year set-aside to purchase a new, front line engine. The City last year replaced one engine. However, the other front-line engine is nearing 20 years in service.

City One-time Capital

At the time the City prepared its 2020/21 budget, the City recently increased its revenue base with new tax measures and revenues were growing. As a result, the City budgeted to spend down the accumulating fund balance on various projects. Despite a desire to reduce these one-time projects, some budgeted projects need to continue. Table VII, One-time General Fund Capital 20/21, shows budget projects and which ones are recommended to continue with.

Table VII
One-time General Fund Capital 20/21

City of Marina One-time General Fund CIP, FY 20/21			
Project	General		Recommended
City Hall and Anex Center Reconfiguration	335,000		-
Dunes Barracks Stabilization and Fire Station #3	400,000		-
Arts Village Building Stabilization	1,350,000		-
Retention Basin Annual Water Monitoring	25,000		25,000
Streetlight Replacement	125,000		125,000
Traffic Signal Maintenance and Upgrades	100,000		100,000
General Plan	500,000		500,000
Total	<u>2,835,000</u>		<u>750,000</u>

Balanced Budget Calculation

With the recommended changes, the General Fund Balanced Budget Calculation would yield the result as shown in Table VIII, Balance Budget Calculation for FY 20/21.

Table VIII
Balance Budget Calculation for FY 20/21

<u>Balanced Budget Calculation</u>		
FY 2020/21 - GF		
All Amounts in Thousands		
Rev.		22,539
Op. Budget		(20,771)
Recurring Trans.		(2,375)
Over/(under) Bal. Bud		(607)
Consider Extraordinary Legal Costs		700
Revised		
Over/(under) Bal. Bud		93

The balanced budget calculation compares expected revenues to the operating budget and recurring transfers. With recommended changes to the budget, the balanced budget calculation has a \$600,000 shortfall. However, the City has budget an extraordinary \$700,000 in legal costs in the FY 20/21 budget. Because this legal cost is not expected to continue, this amount can be deducted from the calculation, achieving the balanced budget required by Resolution 2012-46.

Summary

The City is facing unusual times. It requires adjustments as recommended in this memo. By making the proposed changes, the City can maintain its fiscal house in order. Table IX, Balanced Budget Calculation with Proposed Budget with Revisions for General Fund, FY 20/21 show that the City would plan to use \$1.8 million of its General Fund balance in FY 20/21 and have a balanced budget by almost \$200,000, following the Resolution 2012-46 calculation.

Table IX
Balanced Budget Calculation with Proposed Budget with Revisions for General Fund, FY 20/21.

		Resolution 2012-46		
Proposed Budget				
Operating General Fund (100)				
All Amounts in Thousands		FY 19/20	FY 20/21	FY 20/21 Revised
Resources (Revenues and Transfers)		26,238	26,059	22,539
Uses (Expenditures and Transfers)		(27,770)	(28,411)	(24,376)
Net Uses		(1,532)	(2,352)	(1,837)
Add Back non-Replacement Vehicle Charges		507	580	580
Add Back Extraordinary Legal Costs				700
Add Back One-time Transfers to Capital		2,160	2,735	750
Amount Exceeding Balanced Budget		1,135	963	193
Revision Summary				
Revenues				
	Revenue loss		-4000	
	Inc. Traffic Cita.		100	
	SAFER Grant		380	
			-3520	
Exp.				
	Wage Reimburse.		450	
	No MOU inc.		200	
	Budget Red.		1300	
	Capital Reductions		2085	
			4035	

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							Change	Change
			Budget		Forecast	Forecast	from	from Jan.
					Jan 2020	Mar 2020	Budget	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%

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.

Engineering – The Council allocated another Engineering position to this budget. Recruitments so far have not yielded a new employee. The budget savings only occurs due to the vacancy. In addition, some of the costs of this division is being charged to projects.

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 it unallocated fund balance for capital projects.

Table VI
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.