

CITY OF LOS ALAMITOS

3191 Katella Avenue
Los Alamitos, CA 90720

AGENDA BUDGET STANDING COMMITTEE SPECIAL MEETING

Tuesday, April 14, 2020 – 6:00 p.m.

SAFETY ALERT –NOTICE REGARDING COVID-19

Due to COVID-19, the City of Los Alamitos Budget Standing Committee Special Meeting on April 14, 2020 will be conducted by videoconference pursuant to the provisions of the Governor’s Executive Orders N-25-20 and N-29-20. The public may access the meeting electronically or telephonically.

Pursuant to Executive Orders and given the current health concerns, members of the public can access meetings by using your phone to dial +1 (301) 715-8592 and enter the Meeting ID: 496-091-201. Your microphone will be disabled upon entry for the duration of the meeting. **Members of the public may not attend the meeting in person.**

The public can submit comments to cityclerk@cityoflosalamitos.org with the subject line “PUBLIC COMMENT ITEM #” (insert the item number relevant to your comment) or “PUBLIC COMMENT NON-AGENDA ITEM.” Comments **received by 4:00 p.m.** will be compiled and provided to the Budget Standing Committee and made available to the public before the start of the meeting. Staff will not read email comments at the meeting but the official record will include all email comments received until the close of the meeting.

Members of the public wishing to verbally deliver comments via the telephone conference can submit their requests to cityclerk@cityoflosalamitos.org **until the close of the public comment period.** The City Clerk will compile a list of speakers who have indicated a desire to speak. Before the close of the meeting, the City Clerk will announce each speaker, enable the speaker’s microphone, and begin the three minute timer. The speaker’s microphone will automatically be disabled at the end of three minutes.

All speakers shall observe civility, decorum and good behavior. Any item submitted to the Budget Standing Committee during the meeting shall become public record and subject to applicable disclosure laws.

NOTICE TO THE PUBLIC

This Agenda contains a brief general description of each item to be considered. Except as provided by law, action or discussion shall not be taken on any item not appearing on the agenda. Supporting documents, including staff reports, are available for on the City’s website at www.cityoflosalamitos.org once the agenda has been publicly posted.

Any written materials relating to an item on this agenda submitted after distribution of the agenda packet are available for public inspection on the City’s website at www.cityoflosalamitos.org.

It is the intention of the City of Los Alamitos to comply with the Americans with Disabilities Act (ADA) in all respects. If, as an attendee, or a participant at this meeting, you will need special assistance beyond what is normally provided, please contact the City Clerk's Office at (562) 431-3538, extension 220, 48 hours prior to the meeting so that reasonable arrangements may be made.

1. CALL TO ORDER

2. ROLL CALL

Council Member Chirco
Council Member Hasselbrink

3. CONSENT CALENDAR

A. Approval of Minutes

Approve the Minutes of the Special Meeting on March 23, 2020.

4. DISCUSSION ITEM

A. General Fund Projection for Fiscal Year 2019-20

This report provides the Budget Standing Committee with a Mid-year General Fund budget and financial update for the Fiscal Year 2019-20.

Recommendation: Review the General Fund projection and financial update for the Fiscal Year 2019-20.

5. ADJOURNMENT

I hereby certify under penalty of perjury under the laws of the State of California, that the foregoing Agenda was posted at Los Alamitos City Hall, 3191 Katella Ave. and available on the City's website, www.cityoflosalamitos.org, not less than 24 hours prior to the meeting.

Craig Koehler

Craig Koehler, Interim Finance Director

4/10/20

Date

MINUTES OF THE BUDGET STANDING COMMITTEE OF THE CITY OF LOS ALAMITOS

SPECIAL MEETING

Monday, March 23, 2019 – 6:00 p.m.

1. CALL TO ORDER

The Budget Standing Committee met for a Special Meeting at 6:00 p.m., Monday, March 23, 2020, via video conference, Council Members Chirco and Hasselbrink presiding.

2. ROLL CALL

Present: Committee Members: Council Member Chirco
Council Member Hasselbrink

Absent: Committee Members: None

Present: Staff: Chet Simmons, City Manager
Ron Noda, Deputy City Manager
Craig Koehler, Interim Finance Director
Chelsi Wilson, Executive Assistant to City Manager

3. CONSENT CALENDAR

A. Approval of Minutes

Motion/Second: Chirco/Hasselbrink

Unanimously Carried: The Budget Standing Committee approved the Minutes of the Special Meeting on November 4, 2019

4. DISCUSSION ITEMS

Council Member Hasselbrink opened the item for public comment. There being no one wishing to speak, Council Member Hasselbrink closed the item for public comment.

A. Mid-Year General Fund Budget Review for Fiscal Year 2019-20

The Budget Standing Committee reviewed the Mid-Year budget review. They requested staff to return in a couple of weeks to review new projections and estimates of fiscal year end based on the financial impact of the current pandemic conditions.

5. ADJOURNMENT

The Budget Standing Committee adjourned at approximately 6:35 p.m.

Craig Koehler, Interim Finance Director

City of Los Alamitos

BUDGET STANDING COMMITTEE

AGENDA REPORT

MEETING DATE: April 14, 2020 ITEM NUMBER: 4A

To: Budget Standing Committee Members

Presented By: Craig Koehler, Interim Finance Director

Subject: General Fund Projection for Fiscal Year 2019-20

SUMMARY

This report provides the Budget Standing Committee with a General Fund projection and financial update for the Fiscal Year 2019-20.

RECOMMENDATION

Review the General Fund projection and financial update for the Fiscal Year 2019-20.

BACKGROUND

On March 23, 2020, the Budget Standing Committee received its first mid-year General Fund budget overview for Fiscal Year 2019-20. The information contained with this first report was a snapshot of the City's progress as it related to projected revenues and expenditures at that point in time. This point in time forecasting depicted a budgetary surplus of \$567,000, resulting largely from salary savings of \$408,000 and reduced departmental expenses.

The goal of that overview report was to establish a clear baseline of the City's budgetary standing prior to beginning the process of layering in the different factors related to the outbreak of the coronavirus (COVID-19), including the resulting operational and regulatory impact. As the coronavirus outbreak continues, we are witnessing an event that has an unprecedented level of fluidity. Financial information, as well as federal and state regulatory stances are changing week to week, as the economy and businesses are reacting to consumer purchasing patterns and other fluctuations in the market in real time. The national and state response, combined with the uncertainty of how long the presence of the virus will disrupt the U.S. economy, has made forecasting extremely challenging.

While there is uncertainty due to rapidly changing and evolving situation surrounding the pandemic, staff has been able to compile the following financial projections based on facts and financial updates that are available at this time. This is based upon an analyses that incorporates the latest forecast from HdL. Staff will be meeting again with HdL later this week to further test these assumptions and will account and report any necessary additional adjustments.

The baseline for this modeling is a determination by HdL, and their partners at Beacon Economics, that the majority of supply chain disruptions impacting manufacturers will have been resolved by mid-summer, and that actions by the federal government will be successful in avoiding a deep recession. This scenario forecasts a decline in sales tax revenues that is expected to bottom out by the fourth quarter of 2020 with moderate subsequent gains for several quarters thereafter. The most dramatic decreases are expected during the first and second quarters 2020.

As a result of this, marginal or overly leveraged businesses may not survive a lengthy shutdown even with federal subsidies and HdL's observations of previous downturns. The return to previous spending patterns following significant income interruptions is not immediate and often evolves slowly over time. Business travelers who had to resort to teleconferencing may continue to teleconference versus the traditional hotel stays. Formerly avid brick-and-mortar shoppers may find that online shopping and delivery is now an acceptable alternative.

Statewide sales tax trends are already developing, and the biggest changes are expected in the areas of general consumer goods, and restaurants and hotels, which are anticipated to experience major impacts of decreases in the range of approximately -15.0% in the first quarter of 2020, to a - 45.0% decrease for quarter two. Other categories such as autos/transportation, building/construction, and business/industry, will also experience similar declines. Based on these trends and other reporting information, HdL has provided new updated projections for Sales & Use Taxes for the City for the balance of FY19-20.

This overview incorporates the above mentioned impacts as they relate to the fiscal status of the City's General Fund and a projection for the remainder of Fiscal Year 2019-20. It also provides a forum for discussion regarding the City's financial condition and other factors affecting the long-term financial picture.

DISCUSSION

Fiscal Year 2019-20 General Fund Projected Revenues

The amended budget for Fiscal Year 2019-20 forecasted revenues for the General Fund totals \$14.430 million. The table below reflects the 2019-20 amended budget, estimates as of the March 23 report, and new projections that take into account the factors discussed above. Below is a chart and explanation for the sources of revenue that reflect significant variances.

Revenues and Transfers In	2019-20			
	Amended Budget	March 23 Report	Current Projection	Variance from Budget
Property Taxes	\$ 4,086,019	\$ 4,226,790	\$ 4,086,019	\$ -
Sales & Use Taxes	4,098,260	3,873,305	3,613,736	\$ (484,524)
Utility Users Tax	2,009,240	1,998,550	1,998,550	\$ (10,690)
Transit Occupancy Tax	239,680	157,652	137,739	\$ (101,941)
Franchise Fees	673,025	664,289	664,289	\$ (8,736)
Licenses & Permits	853,205	1,011,115	860,814	\$ 7,609
Fines & Forfeitures	720,500	780,500	741,017	\$ 20,517
Investment Earnings	105,000	105,000	121,307	\$ 16,307
Revenue from Other Agencies	117,505	146,085	141,504	\$ 23,999
Charges for Services	995,532	957,071	855,473	\$ (140,059)
Miscellaneous Revenues	72,000	74,000	74,000	\$ 2,000
Interfund Transfers	460,000	460,000	460,000	\$ -
Total Revenues and Transfers In	\$ 14,429,966	\$ 14,454,357	\$ 13,754,448	\$ (675,518)

Material variances in revenues from the current projection to the amended budget are as follows:

Property Taxes were previously trending to reflect an increase over the amended budget, as shown in the March 23 report, and is now being projected to be in line with the amended budget. An adjustment has been made to allow for possible delays in funding for property tax payments.

The Orange County Tax Collector has notified property owners that it will not be extending or postponing the second installment property tax deadline of April 10, 2020, and will not allow for cancellations based on financial circumstances alone. Such requests will be reviewed on a case-by-case-basis.

As such, there could be some financial impact from property owners by delaying their payments due to economic hardships caused by COVID-19. Even though the City is not anticipating any substantial reductions in property tax revenue, a factor has been included to allow for a possible decline.

Sales & Use Taxes are projected to be approximately \$260,000 lower than the March 23 report and reflects a decline of over \$484,000 from the amended budget. The variance factors in an estimate of the economic impact from additional loss in Sales & Use Taxes as provided by HdL's latest estimate. The majority of the decrease in Sales & Use Taxes is from declines in general consumer goods, restaurants and hotels, and building and construction (Ganahl Lumber).

In addition, under the State's Executive Order 90-Day Sales Tax Payment Extension and the California Department of Tax and Fee Administration (CDTFA) Small Business Relief Payment Plan, there are additional financial cash flow impacts from these programs that will negatively impact the City's Sales & Use Tax revenue.

Transient Occupancy Tax is projected to be approximately \$20,000 less than March 23 report, and approximately \$102,000 less than budgeted. This is due to lower TOT receipts for the two existing hotels for the first half of Fiscal Year 2019-20, and an expected decline in the balance of the fiscal year. The new hotel development has been omitted from the projection.

Licenses & Permits revenue is estimated to decline by approximately \$150,000, from the March 23 report, as the level of activity experienced through the first nine months of the fiscal year is not expected to continue at the same pace due to economic impact from the ongoing pandemic. Overall, Business Licenses are projected to be approximately \$7,600 higher than the amended budget.

Fines & Forfeitures is projected to be approximately \$39,000 lower than the March 23 report, as the level of activity is not expected to continue through the balance of the fiscal year. However, Fines & Forfeitures is estimated to be approximately \$21,000 higher than the amended budget for Fiscal Year 2019-20.

Investment Earnings is projected to be slightly higher than the amended budget due to better performance in the investment portfolio during the first half of the fiscal year. However, declines in the investment portfolio earnings may occur as the market reacts to changes in the economy over the balance of the fiscal year and on a longer term.

Charges for Services will see a decline of approximately \$102,000 from the March 23 report, based on the cancellation or postponement of many of Recreation's classes and programs, with a partial offset in part-time staffing costs used in conjunction with these activities. The decrease from the amended budget is projected to be approximately \$140,000 lower for Fiscal Year 2019-20.

Fiscal Year 2019-20 General Fund Projected Expenditures

The amended budget for Fiscal Year 2019-20 forecasted operating expenditures for the General Fund totals \$14.430 million. The table below reflects expenditures for the 2019-20 amended budget, estimates as of March 23 report, and new updated projections.

Department	2019-20			
	Amended Budget	March 23 Report	Current Projection	Variance from Budget
City Council	\$ 66,895	\$ 71,895	\$ 71,895	\$ 5,000
City Manager/City Clerk	796,632	830,591	830,591	\$ 33,959
Finance	752,515	726,145	726,145	\$ (26,370)
City Attorney	176,000	205,000	205,000	\$ 29,000
Police	6,411,556	6,003,213	6,003,213	\$ (408,343)
Development Services	3,116,894	2,989,451	2,989,451	\$ (127,443)
Recreation and Community Services	1,724,608	1,676,215	1,542,703	\$ (181,905)
Non-Departmental	575,865	575,865	575,865	\$ -
Interfund Operating Transfers	809,000	809,000	809,000	\$ -
Total Operating Expenditures and Transfers	\$ 14,429,965	\$ 13,887,375	\$ 13,753,863	\$ (676,102)
Non-operating Expenditures				
Grant-related carryover	\$ 53,221	\$ 53,221	\$ 53,221	\$ -
General Plan Update	18,475	17,391	17,391	\$ (1,084)

Variations in expenditures from the current projection as compared to the amended budget, have been identified and are discussed below. A positive variance, is shown for City Council, City Manager/City Clerk, and City Attorney, and reflects that the department has already exceeded its allocated budget as dollars have already been spent for the most part. Any overages in the identified department budgets were not accounted for in the Amended Budget.

Conversely, Police, Development Services, and Recreation and Community Services, reflect negative variances, or cost savings, as discussed below. Staff is not recommending any formal action for budget amendments at this time, but wanted to inform the Budget Standing Committee and Council of the individual departmental cost breakdowns.

City Council – Fiscal Year 2019-20 City Council expenditures will be \$5,000 higher than budget due to an increase in material costs for the City’s 60th Anniversary.

City Manager/City Clerk – Expenditures for Fiscal Year 2019-20 will be \$33,959 higher than budget due to higher payouts in anticipated departures.

City Attorney – Fiscal Year 2019-20 expenditures will be \$29,000 higher than budget primarily due to a higher volume of assignments handled by the City Attorney than originally anticipated.

Police – Expenditures are projected to be **\$408,000 below budget**, which is primarily attributable to salary savings from four vacancies in the first half of Fiscal Year 2019-20. The salary savings will be partially offset with \$133,000 more in projected overtime expenditures in Patrol to cover shifts, and \$29,000 more in projected payouts due to higher than anticipated departures.

Development Services – Fiscal Year 2019-20 expenditures are estimated to be approximately **\$127,000 below budget**, which is primarily attributable to salary savings from the vacant Development Services Director position. This is partially offset by higher Contractual Services of approximately \$51,000 to cover for the vacancy. In addition, there is approximately \$15,000 savings in Park maintenance due to lower water consumption.

Recreation and Community Services – Expenditures for the department are projected to be approximately \$133,000 less than the March 23 report, as additional cost savings will be realized with the cancellation and postponement of classes and events, and lower part-time salaries and costs. Overall, department expenditures for Recreation and Community Services are estimated to be approximately **\$182,000 less than amended budget** for Fiscal Year 2019-20.

Capital Funding Needs

Spending for CIP, as identified in the Amended Budget, is being followed for FY19-20. Staff is not recommending any new or additional funding for capital projects for the balance of the fiscal year, and will return with an updated CIP plan for the fiscal year 2020-21 Budget.

Fiscal Year 2019-20 Budget Amendment Discussion

Although Staff is not recommending any formal action for amendments for General Fund expenditure increases for City Council, City Manager/City Clerk, and City Attorney, the Budget Standing Committee and Council may consider any budget amendments at its discretion.

The City also received a grant award from SCAG for a Community-wide Active Transportation Plan to establish a bike and pedestrian-friendly environment. The City originally applied for the grant in 2016 (approved by Council), but it was just recently awarded. The City is required to “match” the grant with \$15,000 (originally estimated as \$20,000), or 10% matching for the project. SCAG is requiring assurances that the City is prepared to match the grant before moving forward. The staff report dated November 21, 2016, stated that if awarded the grant, staff would return to the City Council to request an appropriation for the project since this was not taken into account for FY2019-20 budget. Staff is recommending that the funding for grant matching of \$15,000 be made from the Facilities, Streets, and Parks Capital Expenditures Fund (52).

Fiscal Sustainability

On March 16, Council entered into a second contract with FM3 to provide additional polling and feedback on an additional one-half percent sales tax increase, for a full 1.5% tax increase measure for the November 2020 ballot. This additional increase will better address the long-term budget deficit gaps estimated to be \$1.4M FY2020-21 to over \$3.4M in FY2027-28, and fund some of the identified essential Capital Improvement Projects, estimated at approximately \$60M.

As staff begins the process of developing the upcoming Fiscal Year 2020-21 budget, it will also be updating the City's long-term financial plan, including revisions for revised Sales & Uses Taxes, and potential changes to CalPERS costs. Given the current economic conditions and future uncertainty, it should be noted that the processes will be challenging to balance services with uncertainty in certain revenue streams that have been affected by the pandemic.

Fiscal Impact

The Fiscal Year 2019-20 estimated General Fund expenditures and revenues are based on the most likely projected scenarios and includes a number of other assumptions. The changes have been dramatic as the economy and businesses are reacting rapidly to consumer spending patterns and other fluctuations in the market caused by the ongoing pandemic. In a manner of a few weeks, the projected change in General Fund Balance has gone from a positive \$567,000 (March 23 report), to the current projection of less than \$1,000, over a half a million dollar downward swing. The salary savings that were originally projected for FY19-20, have now been eliminated with the reduction in revenues mainly from the decrease in Sales & Use Taxes.

Additional Legislative Impacts

At this time, the Federal and State governments have announced financial aid programs in response to COVID-19. On the federal level, a \$2 trillion stimulus package Coronavirus Aid, Relief, and Economic Security (CARES) Act, was recently enacted. Under the agreement, the federal government will provide direct funding for state and local governments through various programs and grants.

On the State level, the Governor has announced an Executive Order and plans to provide financial relief for California small businesses dealing with the resulting economic hardship caused by the pandemic. The first program is a 90-Day Sales Tax Payment Extension, or "bridge loan" and it will allow qualifying businesses a 90-day extension for sales, use and transactions tax returns and related tax payments, until the end of July to file their first quarter 2020 returns. The financial impact from this is estimated to be a decrease of approximately \$426,000 in Sales & Use Taxes. Since sales tax payments are expected within 60 days of fiscal year end, the City will reflect this money for FY19-20 under accrual accounting.

In addition to and conjunction with the 90-day extension, qualifying businesses may also enter into an Installment Payment Plan with the CDTFA, that allows them to spread their 1st Quarter 2020 liability over a twelve-month period, whereby their first payment would be due on August 31, 2020. The estimated financial impact from this is an additional \$275,000 decrease for Sales & Use Taxes for FY19-20, and will be reflected in the following fiscal year, as remittance to the City will be spread over a twelve-month period.

The program allows small businesses a one-year reprieve in retaining up to \$50,000 that they would otherwise owe the state in sales tax. The state government takes sales tax

revenue and redistributes it to counties and cities, but will now rely on financial support from the recently passed federal stimulus package to aid local governments.

In addition, the State is also urging small businesses to apply for federal financial support through two programs through the Small Business Administration: Economic Injury Disaster Loans, and the Paycheck Protection Loan Guarantee Program, which is a grant program designed to assist businesses retain and pay employees during the coronavirus pandemic.

Even though these additional Sales & Use Tax deferral programs will have negative financial impacts, the majority of the deferred sales tax dollars are expected to flow to the City in FY19-20. Under the current projections and assumptions, the General Fund will remain essentially balanced.

As the balance of the fiscal year develops, Staff will continue to monitor the General Fund revenues and expenditure and will provide the Budget Standing Committee and the City Council with updates as additional information becomes available.

Submitted By: Craig Koehler, Interim Finance Director
Reviewed BY: David Cain, Fiscal Sustainability Manager
Approved By: Chet Simmons, City Manager