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## CITY COUNCIL STAFF REPORT

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**TO:** Honorable Mayor and City Council                      **DATE:** May 4, 2020  
**FROM:** Matthew Bronson, City Manager  
**PREPARED BY:** Deanne Purcell, Administrative Services Director  
**SUBJECT:** COVID-19 Financial Projections and FY 2020-21 Budget Update

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### RECOMMENDATION

Receive information on the City's financial projections and response to COVID-19 impacts along with the FY 2020-21 budget development process and provide input and direction to staff.

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### BACKGROUND

This report provides an update on the City's financial projections related to the impacts of the COVID-19 pandemic in the current fiscal year FY 2019-20 along with the projected impacts to the FY 2020-21 proposed budget that will be presented to the Council in June. Due to the response to the COVID-19 crisis and specifically the economic impacts from the County's shelter-at-home order, the City's revenue estimates have been revised downward for both the current fiscal year 2019-20 (July 1, 2019-June 30, 2020) and the following year 2020-21 (July 1, 2020 to June 30, 2021). The information presented in this report is based on the most current information available, although it is still preliminary given the rapidly changing nature of this situation and these estimates are subject to change.

### **FY 2019-20 Projected Impacts of COVID-19 on City Revenues**

For FY 2019-20, the City's top five General Fund revenues (property tax, sales tax, cannabis tax, transient occupancy tax, and franchise fees) comprise over 80% or \$9.9 million of the total budgeted General Fund revenue of \$12.5 million. Table 1 below shows revenue estimates for the current fiscal year of \$10.5 million before the COVID-19 pandemic, updated estimates of \$9.8 million, and the resulting estimated revenue shortfall of approximately \$700,000 due to COVID-19 impacts with additional information following on each of these five revenue sources:

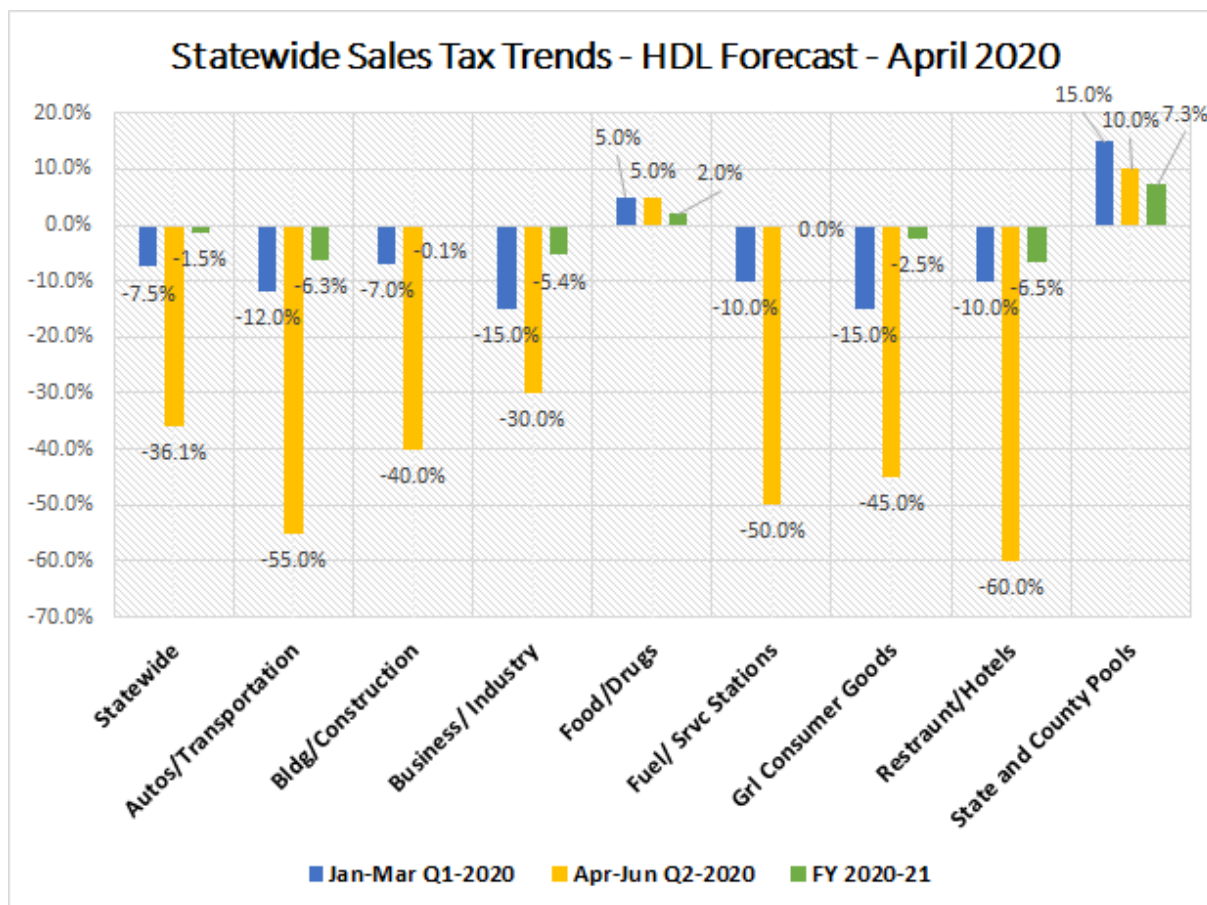
Table 1

Top Five Revenues	Budget	Pre-Covid-19 Est 6-30-20	Updated Est 6-30-20	(Loss) due to Covid-19
Property Tax	\$ 4,741,000	\$ 4,754,000	4,754,000	\$ -
Sales Tax	2,523,000	2,800,000	2,500,000	(300,000)
Cannabis Tax	1,500,000	1,800,000	1,600,000	(200,000)
TOT	579,000	570,000	370,000	(200,000)
Franchise Fees	565,000	567,000	567,000	-
<b>Total</b>	<b>\$ 9,908,000</b>	<b>\$ 10,491,000</b>	<b>\$ 9,791,000</b>	<b>\$ (700,000)</b>

**Property Tax** which accounts for 39% or approximately \$4.7 million of General Fund revenues is still estimated to be on track with budget for FY 2019-20. The County of San Luis Obispo has enacted a waiver for late charges for the April property tax installment payments for taxpayers claiming hardship due to COVID-19. While there could be cash flow delays from deferred payments, any unpaid property taxes will be paid to the City by July 2020 and accrue to this fiscal year. As of April 1, the County has collected 74% of FY 2019-20 property taxes, which was slightly above the same time last year. It often takes time for property values to experience impacts from an economic downturn so long-term impacts of COVID-19 on property tax revenues likely would not occur for two to three years from now.

**Sales Tax** collections account for 20% of General Fund revenues and generate approximately \$2.5 million of revenue annually. Current projections are that the City will see an 11% reduction in sales tax revenues for the FY 2019-20 when compared to Pre-COVID-19 year-end estimates, or a revenue shortfall due to COVID-19 of approximately \$300,000. Many businesses have been impacted by the shelter-at-home order because consumers are not traveling, eating out or spending on certain goods and services that have deemed non-essential. The restaurant industry is reporting a 65% drop in revenue as consumers are spending more on non-taxable groceries during the quarantine. The fuel/service station industry is also experiencing a decrease in fuel consumption as a result of COVID-19 in addition to a major drop in fuel prices due to increases in the supply of oil. Overall, sales taxes generated are expected to significantly drop in the second quarter of 2020 and remain lower than Pre-COVID-19 levels until the first quarter of 2021.

HdL is a leading tax analysis consulting firm and has developed a statewide quarterly forecast that provides a telling picture of the significant impacts that COVID-19 has on sales tax revenues. The forecast is still early and will be monitored closely for changes.



The City's year-end estimates for sales tax revenue shortfalls do not include the impacts of the Governor's announcement on April 2 that allows small businesses to defer their first quarter sales and use tax filing for 90 days, although the City can absorb this potential temporary cash flow impact of around \$289,000. In addition, the Governor is allowing a payment plan for a one-year deferral of tax that applies to taxpayers owing \$50,000 or less in total tax with repayments most likely beginning in August 2020 and spread over 12 months. The potential cash impact to the City from this payment plan would be around \$149,000 which again the City can absorb from a cash-flow standpoint. At this time, it is too early to determine who will take advantage of the payment plan and whether advocacy work by the League of California Cities will impact this payment plan, so staff will continue to monitor both deferrals proposals to determine impact to the City.

Cannabis Tax accounts for 12% of revenues and is estimated to be \$1.6 million or \$200,000 below the earlier projected year-end estimate of \$1.8 million given reported decreases in sales activity during the shelter-at-home order. This revised estimate is still \$100,000 higher than the budgeted amount of \$1.5 million. The COVID-19 pandemic has not restricted access to the cannabis businesses as they were deemed essential businesses by the State with significant swings in sales activity in the weeks leading up to and during the shelter-at-home order. The City worked with the three cannabis retailers to permit temporary curbside service in conjunction with the Bureau of Cannabis Control and has monitored businesses to ensure adherence to physical distance requirements.

Transient Occupancy Tax (TOT) is one of the hardest hit revenue sources due to the pandemic given the shelter-in-place order though this revenue comprises a relatively small percentage of City revenues at 5%. Hotels are reporting drops in revenue of over 85% due to COVID-19 due to cancellations of business and leisure travel plans and Visit SLO CAL reported that countywide occupancy was 35% in March and less than 15% thus far in April. At this time, it is not clear how long will it take consumers to get back to previous levels of business and leisure travel along with changes in business practices such as greater reliance of teleconferencing. For the reasons above, staff is estimating a 75% reduction in TOT revenue for the last quarter for a revenue shortfall of \$200,000 for FY 2019-20.

Franchise Fees accounts for 4% of revenues and are still projected to meet the budget based on amounts received through the third quarter ending March 31, 2020. COVID-19 will not have any material impacts that staff is aware of at this time.

Other Revenue includes other taxes, utility users tax, licenses and permits, service charges and other miscellaneous revenues. The impact of the pandemic to these other revenues is not as significant given the relatively small dollar amounts involved and include charges for services that are not allowed to operate due to the shelter-in-place orders.

### **City Response to COVID-19 Financial Impacts**

Like other cities, the economic impacts from the COVID-19 pandemic within our community have been significant and have led to corresponding City revenue losses in the current fiscal year and projected in the upcoming fiscal year. The anticipated General Fund revenue loss this year of \$700,000 equates to approximately 6% of the City's total general revenues and has led staff to take the following actions to ensure the City's financial position:

- Instituting a hiring review before filling vacant positions based on organizational need
- Tightening expenditures to reduce nonessential costs and freezing travel expenses
- Delaying \$225,000 in select one-time infrastructure improvements until next year such as

tree planting and park improvements and putting \$100,000 in other items on hold including vehicle and equipment acquisition

- Forgoing the \$500,000 one-time appropriation to pay down the City’s unfunded pension liability to preserve funding in reserves
- Delay the start of an \$130,000 annual payment of an interfund loan to the Wastewater Fund for broadband fiber network construction costs also to preserve funding in reserves

However, the City is in a relatively stable position to absorb these revenue losses without disruptions to services and operations given the extent of revenue growth originally projected and the City’s lean budget which is the second smallest budget per capita in the county. As a result, the City is not anticipating service reductions or staffing furloughs or reductions at this time. As shown in Table 2 below, the City anticipates concluding the fiscal year with revenues and expenditures that are approximate to budgeted amounts:

Table 2

General Fund	Original Budget	Estimated 6-30-20
Revenues	12,515,400	\$ 12,697,116
Expenditures	12,466,600	12,405,846
<b>ANNUAL SURPLUS</b>	<b>48,800</b>	<b>291,270</b>
Beginning Reserves	3,647,500	3,647,500
Ending Reserves	\$ 3,696,300	\$ 3,938,770
Percent of Operating	31%	33%

The estimated year-end surplus of \$291,270 reflects \$241,000 in funds that will be carried over to FY 2020-21 including \$175,000 for economic development activities funded by SB 1090 funds and \$66,000 for capital projects. The corresponding net surplus is an estimated \$50,270 which mirrors the budgeted surplus at the beginning of the year. Ending reserves are anticipated to equal \$3.9 million or 33% of the operating budget compared with the Council’s updated reserves goal of 25%. However, given future economic uncertainties, staff recommends retaining a higher level of reserves into the upcoming fiscal year in case revenue losses are more significant than anticipated which is covered in the next section of the report.

**FY 2020-21 Budget Development Update**

Staff is finalizing its work on developing the proposed budget for FY 2020-21 which will be provided to the Council in late May. The recommendations that will be included in the proposed budget are intended to continue aligning City resources to Council priorities as defined by Council Goals as well as address key organizational needs within a balanced budget and appropriate reserve levels. The proposed budget will include the proposed work programs for the four Major City Goals for FY 2020-21 shown in Attachment 1. The work programs for next year may be more limited than originally intended given the projected revenue losses due to COVID-19 and the related impacts on implementation of projects and initiatives.

Regarding COVID-19 impacts, staff estimates that the revenue losses in FY 2020-21 will be similar to the losses in the last quarter of FY 2019-20 with an estimated revenue reduction of \$800,000. Given the limited information available at this time, staff has been very cautious in estimating proposed revenues for FY 2020-21 as there are still many unknowns. Below is additional information on the primary General Fund revenues along with key expenditure assumptions:

Property Tax is on track with the estimates provided by San Luis Obispo County Tax Assessor's Office in January 2020. The FY 2020-21 budget assumes that the City's property tax revenues will increase by 5% next year from the current fiscal year FY 2019-20 using the most current assessed value calculation as it will take two to three years for related impacts from the COVID-19 pandemic as mentioned earlier.

Sales Tax had an original estimate of a 4.5% increase from FY 2019-20 that was subsequently reduced by approximately \$300,000 to account for the impacts of COVID-19 in the new fiscal year. One positive note is that the sales tax forecast prepared by the City's sales tax consultant includes \$200,000 in new revenue due to the recently adopted AB 147 (which implements the U.S. Supreme Court *Wayfair* decision) that allows cities to be able to collect sales tax for online purchases that exceed the threshold or \$500,000.

Transient Occupancy Tax projections assume travel activity will start to pick up in the summer months of 2020 but revenues will still be impacted through the end of calendar year 2020 for both hotels and short-term rentals. The original estimates for FY 2020-21 were reduced by \$200,000 due to COVID-19 impacts.

Cannabis Tax projections have been reduced by \$300,000 from \$1.8 million to \$1.5 million due to the continued level of uncertainty about cannabis sales and business activity in the next fiscal year as the economy recovers from the shelter-at-home order.

In terms of expenditures, staff will be recommending a largely status quo budget for FY 2020-21 with personnel costs reflecting approved memoranda of understanding or negotiated agreements with employee labor groups and operating costs that fund the City's current operations and Council-directed items such as the low income subsidy for utility customers. The proposed budget will also include a General Fund contribution of \$300,000 along with \$3.3 million from Measure K-14 street bonds and the Water and Wastewater Enterprise Funds to fund the FY 2020-21 Capital Improvement Program (CIP). A draft of the full five-year CIP was presented to Council on March 16, 2020 with input and direction from the Council incorporated into the final version presented with the proposed budget.

Overall, the proposed budget for FY 2020-21 will be balanced with a nominal surplus of approximately \$56,000 without a need to reduce services or staffing levels at this time. The budget is anticipated to produce ending reserves of approximately 32% of operating expenditures compared with the Council's updated reserves goal of 25%. As mentioned earlier, staff recommends retaining a higher level of reserves in case revenue losses are more significant than anticipated given economic uncertainties. Staff would note that while next year's budget is able to fund the current level of City operations, the budget does not include sufficient funding to enable the City to meet identified community needs such as increasing Police patrol staffing, repair of major streets, and additional sidewalks throughout the city. Additional funding such as through a tax measure or other sources will be needed to address these needs beyond the funding projected in the City's budget for the foreseeable future. Lastly, the City is working with the League of California Cities to advocate for additional local funding from the State and Attachment 2 is a draft letter requested by the League to send to the Governor pending Council direction.

### Summary

Staff is seeking Council's input and direction on the COVID-19 financial projections and the City's response to these impacts along with the FY 2020-21 budget development update. This input and direction will be used in finalizing the proposed budget for FY 2020-21 which will be presented to

the Council at the June 1, 2020 budget hearing. The Council's adoption of the final budget in June will serve as the final approval for work programs for the Major City Goals and staff will then begin implementing these work programs in the new fiscal year and report back to Council on progress throughout the year.

### **FISCAL IMPACT**

No fiscal impact from this agenda item.

### **ALTERNATIVES**

The City Council has the following alternatives to consider:

1. Receive information on the City's financial projections due to COVID-19 impacts and related City actions along with the FY 2020-21 budget development process and provide input and direction to staff; or
2. Provide staff with alternative direction.

### **PUBLIC NOTIFICATION**

The agenda was posted in accordance with the Brown Act.

### **ATTACHMENTS**

1. FY 2020-21 City Council Goals
2. Draft Letter to Governor Newsom on Local Funding

**City of Grover Beach  
FY 2020-21 City Council Goals**

**MAJOR CITY GOALS**

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**ECONOMIC DEVELOPMENT.** Develop and implement economic development strategies that support business retention and attraction, tourism marketing and development, revenue generation and effective permit processing.

**HOUSING AND HOMELESSNESS.** Collaborate with developers and non-profits in efforts to increase housing availability particularly affordable housing units and partner with regional agencies and organizations to address homelessness challenges in the city and region.

**PUBLIC SAFETY.** Ensure quality, contemporary public safety services (police, fire, emergency medical) by providing adequate resources to meet existing demands; and by engaging businesses and the community in addressing public safety challenges, such as vagrancy problems near commercial areas, neighborhoods and parks.

**STREET AND OTHER CAPITAL IMPROVEMENTS.** Continue improvements to major and local streets using Measure K-14 funds, SB1 funds and other resources while incorporating other desirable capital improvements such as utility upgrades and “complete streets” improvements; and improve other infrastructure such as City parks, recreation facilities and other public buildings.

**OTHER IMPORTANT GOALS**

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**CITY BEAUTIFICATION AND PUBLIC ART.** Enhance the appearance of the community through tree maintenance and landscaping, utility undergrounding, public art, and signage, especially along the Grand Avenue corridor.

**ENVIRONMENTAL SUSTAINABILITY.** Integrate environmentally sustainable principles and practices into City operations and new development plans and standards; increase resource conservation and reduce carbon emissions through initiatives such as Central Coast Blue, Community Choice Energy and electric vehicle charging stations.

**PEDESTRIAN AND BICYCLE SAFETY.** Make Grover Beach a more pedestrian and bicycle friendly community by adding and/or enhancing bicycle lanes, sidewalks, streetlights, street and crosswalk striping and enhancements, and other traffic calming measures.

**ADDRESS AS RESOURCES PERMIT**

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**CODE COMPLIANCE.** Strengthen the code compliance program and related Municipal Code sections to be more proactive in inspecting and addressing such issues as overgrown landscaping, short term rental violations, illegal advertising/business signage, conflicting right-of-way encroachments and continued monitoring of the cannabis industry.

**COMMUNITY ENGAGEMENT.** Provide opportunities for community members to engage and be involved with their community through programs, initiatives and events.

**RECREATION AND COMMUNITY PROGRAMS.** Provide viable recreation, youth, and special event programs designed to meet current and emerging needs, while avoiding duplication of programs offered by other providers.

May 5, 2020

Honorable Gavin Newsom  
Governor, State of California  
State Capitol  
Sacramento, CA 95814  
VIA E-mail: [ExternalAffairs@gov.ca.gov](mailto:ExternalAffairs@gov.ca.gov)

Dear Governor Newsom:

The City of Grover Beach thanks you for your leadership and efforts to protect and support Californians during this unprecedented public health crisis. Cities remain on the front line helping residents stay safe and in their homes, delivering emergency services, and supporting local businesses and community organizations. However, as emergency costs continue to grow, city revenues to fund local services are plummeting. COVID-19 is having devastating impacts on city budgets and services statewide.

Based on the League of California Cities analysis, California cities are projecting a nearly **\$7 billion general revenue shortfall** over the next two fiscal years. This shortfall will grow by billions of dollars if stay-at-home orders to protect public health extend into the summer months and beyond.

The City of Grover Beach projects that the revenue shortfalls in our city will impact core city services including public safety services, transportation and infrastructure projects, and parks improvements that support our quality of life. Since the beginning of the COVID-19 crisis, the City of Grover Beach has stepped up to protect and serve our community by continuing to provide essential services and working with other local agencies on our countywide response including hosting a testing facility in one of our community centers. The necessary measures our city has taken are costly. In order to continue to be a full partner with the state in saving lives, protecting our communities, and ultimately recovering from this crisis, **we need your help.**

The City of Grover Beach is calling on you to immediately support the following actions:

- Establish at least a \$7 billion city revenue stabilization fund for direct aid to all cities to address the general revenue shortfall over the next two fiscal years;
- Allocate a share of the State's \$8.4 billion CARES Act funding for cities with populations under 500,000 to support COVID-19 expenses; and
- Create a COVID-19 financing vehicle that all cities can access to support immediate cash flow needs.

The City of Grover Beach appreciates your consideration of our requests and look forward to further discussing in the coming days how together we can continue to best protect Californians and reopen our economy. Thank you again for your leadership and partnership during these uncertain times.



Sincerely,

Jeff Lee  
Mayor  
City of Grover Beach

Cc: State Senator Bill Monning  
Assembly Member Jordan Cunningham  
David Mullinax, League of California Cities, [dmullinax@cacities.org](mailto:dmullinax@cacities.org)  
Meg Desmond, League of California Cities, [cityletters@cacities.org](mailto:cityletters@cacities.org)

DRAFT