



STAFF REPORT CITY OF SOLANA BEACH

TO: Honorable Mayor and City Councilmembers
FROM: Gregory Wade, City Manager
MEETING DATE: April 8, 2020
ORIGINATING DEPT: Finance
SUBJECT: **Budget Impacts from COVID-19**

BACKGROUND:

On March 11, 2020, the World Health Organization (WHO) declared COVID-19, the illness caused by the novel coronavirus, a pandemic, pointing at that time to over 118,000 cases of COVID-19 in over 110 countries and territories around the world and the sustained risk of further global spread. This was preceded by declarations of emergency by both the County of San Diego and State of California on February 14, 2020, and March 4, 2020, respectively, followed by a federal emergency declaration on March 13, 2020, as a result of the threat posed by COVID-19. On Monday, March 16, 2020, the City Manager, acting as the Director of Emergency Services, took action under SBMC Section 2.28.060(A)(1) to proclaim the existence of local emergency conditions within the City of Solana Beach and on March 19, 2020, the City Council adopted Resolution 2020-036 confirming the ratification of that proclamation.

A statewide stay in home order went into effect on Thursday, March 19, 2020, and is in place until further notice. The order requires everyone to stay home except to carry out essential needs including shopping for food, caring for a relative or friend, obtaining necessary health care, or going to an essential job.

The impact of COVID-19 to the national economy has been swift and unprecedented. From an economy where the unemployment rate was at 3.5%, consumer confidence was strong and gross domestic product (GDP) was at two percent or greater for the last three years to a total stop in some sectors of the economy with millions of people losing their jobs in a one month period has not been seen in any previous financial crisis. As a result, on March 27, 2020, the president signed the Coronavirus Aid, Relief, and Economic Security Act (CARES Act). The \$2 trillion aid package will provide financial aid to families and businesses impacted by the COVID-19 coronavirus pandemic.

The purpose of this Staff Report is to provide an initial analysis of the impacts of COVID-19 to the City's General Fund revenue budgets for FY 2019/20 and FY 2020/21.

COUNCIL ACTION:

DISCUSSION:

Staff has been conducting analyses on the City’s General Fund revenue sources to provide an initial picture of the impacts of COVID-19 to the City’s revenue stream. The adjustments that are provided for each category of revenue is compared to the FY 2019/20 Amended Budget, approved by Council at its February 26, 2020 meeting regarding mid-year adjustments, and to the FY 2020/21 Adopted Budget approved by Council in June 2019.

Sales Tax

Since the FY 2019/20 budget was approved in June 2019, sales tax receipts received by the City averaged 5% more than the expected budget amount received for the two quarters through December 2019. Staff was expecting to recommend to Council sometime in the late spring a budget adjustment to increase sales tax revenue by approximately \$160,000.

However, the given impact to retail businesses resulting from the COVID-19 pandemic, there will obviously be a reduction to the City’s sales tax receipts. Hinderliter, de Llamas & Associates (HdL), the City’s sales tax consultant, has conducted an initial analysis of those anticipated receipts. Based on this analysis, it is estimated that the gains already realized through December 2020, and the additional expected gains through mid-March 2020, will effectively be offset by the losses anticipated during the period from mid-March through June and the City’s overall expected sales tax revenue remain consistent with the FY 2019/20 budget approved by Council in June 2019. It is currently expected that this will result in a net zero impact for the current fiscal year.

For FY 2020/21, HdL is expecting a reduction in sales tax revenue of \$143,400 as compared to the FY 2020/21 Adopted Budget. A summary of the impact to the City’s projected receipts as compared to the Budgets is shown in the following table:

	FY2020				FY2021			
	AMENDED			%	ADOPTED			%
	BUDGET	ADJ	PROJECTED	Reduct	BUDGET	ADJ	PROJECTED	Reduct
Sales and Use Tax	\$ 3,259,200	\$ -	\$ 3,259,200	0%	\$ 3,308,700	\$ (143,400)	\$ 3,165,300	-4%

The largest sales tax reductions are expected in general consumer goods, restaurants and hotels, and fuel and service stations where the average adjustment is a decrease of 27% for the last quarter of the fiscal year. The same sales tax categories will also be impacted in FY 2020/21 for an average decrease of 9%. The only sales tax category that will show an increase is the City’s share of the County and State sales tax pools. Not currently accounted for is the proposed sales tax relief of up to \$50,000 for small business proposed by Governor Newsom on April 2nd. Staff is currently working with HdL to assess this additional impact should it come to fruition.

Transient Occupancy Tax

It is expected that Transient Occupancy Tax (TOT) will decrease by a total of 23% or \$321,000 for FY 2019/20 as compared to the Amended Budget and by a total of 29% or

\$415,600 for FY 2020/21 as compared to the Adopted Budget as shown in the following table:

	FY2020				FY2021			
	AMENDED		PROJECTED	%	ADOPTED		PROJECTED	%
	BUDGET	ADJ			BUDGET	ADJ		
Transient Occupancy Tax - Hotels	\$ 1,000,000	\$ (220,500)	\$ 779,500	-22%	\$ 1,000,000	\$ (266,200)	\$ 733,800	-27%
TOT - Short-term Vacation Rentals	420,000	(100,500)	319,500	-24%	420,000	(149,400)	270,600	-36%
Total TOT	\$ 1,420,000	\$ (321,000)	\$ 1,099,000	-23%	\$ 1,420,000	\$ (415,600)	\$ 1,004,400	-29%

The projected revenue amount for each fiscal year was calculated as follows:

FY 2019/20:

Actual revenue received for July to January 100%

Estimates as compared to historical trends:

February 100%
 March 50%
 April to June 20%

FY 2020/21:

Estimates as compared to historical trends:

July to September 50%
 October to June 80%

In FY 2020/21, the percentage reduction in Short Term Vacation Rental (STVR) TOT is higher than for TOT received from the hotels. Based on historical monthly collection rates for the fiscal year, the City receives 51% of its annual STVR TOT revenue in July to September while for the same period the City receives 32% of its annual hotel TOT revenue. When the estimated 50% reduction for July to September is applied to the TOT estimates, and since the STVR TOT has a higher monthly collection rate for this period, the percentage reduction in STVR revenue is estimated to be higher.

Development Related Revenue

Due to the uncertainty of when the City can begin conducting business again at City Hall, it is expected that development related revenue will also be significantly impacted through the end of FY 2019/20.

During the last recession that began in December 2007, the City realized a 30% reduction in its development related revenues in FY 2008/09 as compared to FY 2007/08. Based on this information, and with the expectation that the economy is most likely headed for a recession at least through the next fiscal year, a 25% reduction in revenues was applied to development related budgeted revenues for FY 2020/21. Based on the above assumptions, development related revenues are projected to decrease 20% or \$300,900 as compared to the Amended Budget for FY 2019/20 and

decrease by 25% or \$263,600 as compared to the Adopted Budget for FY 2020/21 as shown in the following table:

	FY2020				FY2021			
	AMENDED BUDGET	ADJ	PROJECTED	% Reduct	ADOPTED BUDGET	ADJ	PROJECTED	% Reduct
Building/Plumbing/Electrical/ Permits	\$ 281,000	\$ (65,900)	\$ 215,100	-23%	\$ 288,000	\$ (72,000)	\$ 216,000	-25%
Planning and Zoning	284,500	(63,700)	220,800	-22%	189,100	(47,300)	141,800	-25%
Building/Plan Check Fees	565,700	(84,000)	481,700	-15%	226,900	(56,700)	170,200	-25%
Public Facilities Fees	55,000	-	55,000	0%	55,000	(13,800)	41,200	-25%
Engineering Fees	210,000	(34,900)	175,100	-17%	215,300	(53,800)	161,500	-25%
Fire Plan Check Fees	77,900	(52,400)	25,500	-67%	79,800	(20,000)	59,800	-25%
Total Development Related	\$ 1,474,100	\$ (300,900)	\$ 1,173,200	-20%	\$ 1,054,100	\$ (263,600)	\$ 790,500	-25%

Property Tax

Based on expected receipts for FY 2019/20, no adjustment in property tax revenue is anticipated. In California, as required by Proposition 13, the assessed value of existing properties is only allowed to grow by either the California Consumer Price Index or 2 percent, whichever is lower. In December, the State Board of Equalization announced that the inflation rate for the 2019 year was 2.98 percent which will result in the assessed value of existing properties increasing a maximum of 2 percent as required by California law. Besides the two percent increase in assessed valuations, the City's property tax revenues have also been helped by sales of properties that result in increased valuations. Increased property tax valuations from sales of properties during FY 2019/20 will not be fully realized until FY 2020/21. At this time, and based on these factors, it is not expected that a reduction in property tax revenue as compared to the FY 2020/21 Adopted Budget will be needed. If the expected recession continues through the end of FY 2020/21, negative impacts to the City's property tax revenues will be reflected in fiscal years after FY 2020/21.

Business Registration and STVR Permits

Renewals for Business Registration and STVR permits, which is included in the Other Special Permit revenue category, would normally have been mailed out no later than November 2019 for the 2020 renewal year. Due to delays with the implementing the licensing program that is part of the City's TRAKiT software, renewals have still not been sent. It is not expected that the licensing program will be implemented before the end of April, and even if renewals can be sent out before the end of the fiscal year in June, the majority of receipts will be received in the following fiscal year. While this situation would result in a bump in revenue for FY 2020/21, due to the expected downturn in the economy, total business registration and STVR permit revenue is anticipated to decline in FY 2020/21 as shown in the following table.

	FY2020				FY2021			
	AMENDED BUDGET	ADJ	PROJECTED	% Reduct	ADOPTED BUDGET	ADJ	PROJECTED	% Reduct
Business Registration	145,000	(50,000)	95,000	-34%	148,700	(30,000)	118,700	-20%
Other Special Permits	27,000	(3,000)	24,000	-11%	27,000	(2,000)	25,000	-7%
Total Business/STVR Registration	\$ 172,000	\$ (53,000)	\$ 119,000	-31%	\$ 175,700	\$ (32,000)	\$ 143,700	-18%

Other Funds

It is expected that the economic impacts of the COVID-19 pandemic will affect other City funds where revenues are dependent on the economy. These funds would include Gas Tax, SB1 Funding, and TransNet. Staff will be evaluating impacts to these other funds as information becomes available and report them to Council.

General Fund Summary

The General Fund Budgets for FY 2019/20 and FY 2020/21 have been adjusted to reflect impacts of the COVID-19 pandemic and are summarized in the following table with a comparison to the FY 2019/20 Amended Budget and the FY 2020/21 Adopted Budget:

General Fund Summary *
Amended for Economic Conditions - 04/01/20
FY2020 to FY2021

	FY2020				FY2021		
	Adopted	Amended	Adjustments	Projected	Adopted	Adjustments	Proposed
Revenues	\$ 19,357,000	\$ 20,013,100	(674,900)	\$ 19,338,200	\$ 19,827,600	(854,600)	\$ 18,973,000
Salaries & Benefits	8,555,800	8,675,800	-	8,675,800	8,830,800	-	8,830,800
Materials, Supplies, Services	8,554,100	8,936,800	(112,400)	8,824,400	8,759,600	(96,500)	8,663,100
Internal Service	2,031,600	2,031,600	-	2,031,600	2,012,100	-	2,012,100
Total Expenditures	19,141,500	19,644,200	(112,400)	19,531,800	19,602,500	(96,500)	19,506,000
Revenues Over/(Under) Expenditures	215,500	368,900	(562,500)	\$ (193,600)	225,100	(758,100)	\$ (533,000)
Transfers Out							
Debt Service	(151,100)	(151,100)		(151,100)	(151,100)		(151,100)
Total Transfers Out	(151,100)	(151,100)		(151,100)	(151,100)		(151,100)
Net Projected Surplus (Deficit)	\$ 64,400	\$ 217,800	(562,500)	\$ (344,700)	\$ 74,000	\$ (758,100)	\$ (684,100)
Beginning FB 07/01	9,867,226	9,867,226		9,867,226	9,522,526		9,522,526
Ending FB 06/30	9,931,626	10,085,026	(562,500)	9,522,526	9,596,526	(758,100)	8,838,426

* Does not include internal service funds (Risk Management, Workers Compensation, Asset Replacement, Facilities Replacement funds, Real Property Acquisition, Other Post Employment Benefits (OPEB), and Pension Stabilization funds).

The reduction in Materials, Supplies and Services of \$112,400 in FY 2019/20 and \$96,500 in FY 2020/21 reflects expected decreased payments through EsGil, the City's third party building permit plan review and inspection contractor, because of lower building permit and plan check fees anticipated for each fiscal year. EsGil is paid 75% of these building permit services revenues.

As discussed above, the major revenue categories where a reduction in revenues are anticipated are shown in the following table:

	FY2020	FY2021
Sales Tax	\$ -	\$ (143,400)
Transient Occupancy Tax	(321,000)	(415,600)
Development Related	(300,900)	(263,600)
Total	\$ (621,900)	\$ (822,600)

As noted above, prior to the onset of the COVID-19 outbreak, the FY 2019/20 General Fund amended surplus was anticipated to be \$217,800. Our current analysis shows the impact will reduce this surplus by \$562,500 to a \$344,700 projected deficit. Similarly, for FY 2020/21, the anticipated surplus of \$74,000 will be reduced by \$758,100 to a projected \$684,100 budget deficit. This initial analysis reflects a potential \$1,320,600 reduction to our General Fund budget for the remainder of this fiscal year and the next.

Due to the rapidly evolving nature of the economic impacts due to COVID-19, Staff will continue to gather information and provide analysis on how these impacts will affect the City's budget and financial outlook.

CEQA COMPLIANCE STATEMENT:

Analysis of these budget impacts is not a project as defined by CEQA.

FISCAL IMPACT:

Current estimates are that the COVID-19 pandemic will result in an overall reduction to the General Fund Budget over the remainder of this and the next fiscal years of \$1,320,600. Staff is continuing to evaluate these and other possible budget impacts including reductions in Gas Tax, Transnet, SB1 Funding, and possible additional retail sales tax reduction as proposed by Governor Newsom.

WORK PLAN:

N/A

OPTIONS:

- Receive the report.
- Do not accept the report

DEPARTMENT RECOMMENDATION:

Staff recommends that the City Council receive the report and provide direction as necessary to Staff.

CITY MANAGER'S RECOMMENDATION:

Approve Department Recommendation



Gregory Wade, City Manager



STAFF REPORT CITY OF SOLANA BEACH

TO: Honorable Mayor and City Councilmembers
FROM: Gregory Wade, City Manager
MEETING DATE: April 8, 2020
ORIGINATING DEPT: Finance
SUBJECT: Budget Impacts from COVID-

STAFF REPORT UPDATE Item # C.1

DISCUSSION:

Hinderliter, de Llamas & Associates (HdL), the City’s sales tax consultant, has updated the initial analysis of the City of Solana Beach (City) sales tax receipts for FY 2019/20 and 2020/21. Based on the revised analysis, it is estimated that the City’s fourth quarter sales tax revenue will drop at a higher rate than originally calculated since it is now expected that most retail establishments will be closed from April through the end of May. HdL’s initial analysis for FY 2019/20 reported no net loss of sales tax revenue as compared to the Amended Budget. Based on the revised analysis, it is expected that Sales Tax will decrease by a total of 3.6% or \$116,000 as compared to the Amended Budget for FY 2019/20 which projected sales tax of \$3,259,200.

For FY 2020/21, HdL projects that sales tax revenue will continue to be received at a reduced level compared to the same periods in the prior fiscal year but that the City will see a bounce back in the fiscal year’s fourth quarter since it is anticipated that stores will be open for the full quarter versus the prior year. The updated analysis shows a reduced loss in Sales Tax revenue as compared to the initial analysis. HdL’s initial analysis for FY 2020/21 reported a loss of \$143,400 as compared to the Adopted Budget. Based on the revised analysis, it is expected that Sales Tax will decrease by a total of 1.7% or \$56,800 as compared to the Adopted Budget for FY 2020/21 which projected sales tax of \$3,308,700.

A summary of the amended impact to the City’s projected receipts as compared to the Budgets is shown in the following table:

	FY2020				FY2021			
	AMENDED		%		ADOPTED		%	
	BUDGET	ADJ	PROJECTED	Reduct	BUDGET	ADJ	PROJECTED	Reduct
Sales and Use Tax	\$ 3,259,200	\$ (116,000)	\$ 3,143,200	-3.6%	\$ 3,308,700	\$ (56,800)	\$ 3,251,900	-1.7%

Still not accounted for is the proposed sales tax relief of up to \$50,000 for small business proposed by Governor Newsom on April 2nd. Staff is currently working with HdL to assess this additional impact should it come to fruition.

General Fund Summary-Update

Based upon the updated sales tax information, the General Fund Budgets for FY 2019/20 and FY 2020/21 have been adjusted to reflect impacts of the COVID-19 pandemic and are summarized in the following table with a comparison to the FY 2019/20 Amended Budget and the FY 2020/21 Adopted Budget:

General Fund Summary *
Amended for Economic Conditions - 04/08/20
FY2020 to FY2021

	FY2020				FY2021		
	Adopted	Amended	Adjustments	Projected	Adopted	Adjustments	Proposed
Revenues	\$ 19,357,000	\$ 20,013,100	(790,900)	\$ 19,222,200	\$ 19,827,600	(768,000)	\$ 19,059,600
Salaries & Benefits	8,555,800	8,675,800	-	8,675,800	8,830,800	-	8,830,800
Materials, Supplies, Services	8,554,100	8,936,800	(112,400)	8,824,400	8,759,600	(96,500)	8,663,100
Internal Service	2,031,600	2,031,600	-	2,031,600	2,012,100	-	2,012,100
Total Expenditures	19,141,500	19,644,200	(112,400)	19,531,800	19,602,500	(96,500)	19,506,000
Revenues Over/(Under) Expenditures	215,500	368,900	(678,500)	\$ (309,600)	225,100	(671,500)	\$ (446,400)
Transfers Out							
Debt Service	(151,100)	(151,100)		(151,100)	(151,100)		(151,100)
Total Transfers Out	(151,100)	(151,100)		(151,100)	(151,100)		(151,100)
Net Projected Surplus (Deficit)	\$ 64,400	\$ 217,800	(678,500)	\$ (460,700)	\$ 74,000	\$ (671,500)	\$ (597,500)
Beginning FB 07/01	9,867,226	9,867,226		9,867,226	9,406,526		9,406,526
Ending FB 06/30	9,931,626	10,085,026	(678,500)	9,406,526	9,480,526	(671,500)	8,809,026

* Does not include internal service funds (Risk Management, Workers Compensation, Asset Replacement, Facilities Replacement funds, Real Property Acquisition, Other Post Employment Benefits (OPEB), and Pension Stabilization funds),

The updated major revenue categories where a reduction in revenues are anticipated are shown in the following table:

	FY2020	FY2021
Sales Tax	\$ (116,000)	\$ (56,800)
Transient Occupancy Tax	(321,000)	(415,600)
Development Related	(300,900)	(263,600)
Total	\$ (737,900)	\$ (736,000)

Prior to the onset of the COVID-19 outbreak, the FY 2019/20 General Fund amended surplus was anticipated to be \$217,800. Our updated analysis shows the impact will reduce this surplus by \$678,500 to a \$460,700 projected deficit for FY 2019/20. For FY 2020/21, the anticipated surplus of \$74,000 has been updated to reflect a reduction of \$671,500 to a projected \$597,500 budget deficit. This revised analysis increases the potential reduction to our General Fund budget for the remainder of this fiscal year and the next from \$1,326,600 to \$1,350,000.