AGENDA BILL

Date: June 9, 2020
To: El Cerrito City Council
From: Karen Pinkos, City Manager, City Management
Subject: City Council Budget Study Session

ACTION PROPOSED
Conduct a study session to discuss a Fiscal Response Plan that considers potential strategies for addressing the City's budget.

BACKGROUND/ANALYSIS
The City is facing budget challenges that have been made worse by the current COVID-19 public health crisis. The City Council has been monitoring the City's financial position for the past several months. Staff has already identified approximately $4 million in reductions, including cuts in expenses, a freeze on hiring, all employees deferring cost-of-living increases, implementing furloughs, and other actions to decrease costs. However, because the City's budget issues have been structural in nature, this means that the proposed reductions will not be enough to build back the City's General Fund Reserve, especially if there is a recession due to the COVID-19 crisis. To that end, the City Council and the Department Directors have been working with Management Partners, our Strategic Plan consultants, to consider additional actions that will impact City services in order to further reduce expenses.

At the City Council meeting of May 19, 2020, the Council discussed a framework and criteria for various services that the City provides, in order to implement a priority-based budgeting model. During this study session, the Council will discuss Management Partners’ recommendations for programs and services that could be reduced based on strategic priorities. Management Partners will provide an array of options for reducing programs and services. The City Council will review this information so that they have a complete understanding of the City’s financial position and the options for ensuring that the City remains financially sustainable going forward.

No action is being requested at this time. Once the City Council concludes this initial discussion, Management Partners will analyze and refine the recommendations based on their input and feedback, which will be brought back for further discussion and dialogue at an upcoming public meeting (date and time still to be determined).

STRATEGIC PLAN CONSIDERATIONS
This section is not applicable to this agenda item.

ENVIRONMENTAL CONSIDERATIONS
This section is not applicable to this agenda item.
FINANCIAL CONSIDERATIONS
This section is not applicable to this agenda item.

LEGAL CONSIDERATIONS
This section is not applicable to this agenda item.

Reviewed by:
Alexandra Orologas, Assistant City Manager

Attachments:
1. Presentation
City of El Cerrito

Fiscal Projections and Budget Strategies

Council Workshop

June 9, 2020

Nancy Hetrick
Steve Toler
Presentation Overview

- **Review the City's Fiscal Status**
  - Review the City’s forecast to understand El Cerrito’s fiscal status and discuss the impact of the pandemic.

- **Establish Guiding Principles**
  - Review budget strategy criteria and get agreement on guiding principles.

- **Discuss Fiscal Sustainability Strategies**
  - Discuss fiscal sustainability strategies to address short and mid-term budget shortfalls that will enable long-term sustainability.

- **Next Steps**
  - Discuss next steps for the City to remain solvent in the short term.
Fiscal Solvency versus Fiscal Sustainability

Fiscal Solvency

- **Definition**: The ability of an organization to pay its debts and have cash to pay budgeted expenditures
- **Timeframe**: Short term (60 days to 18 months)
- **Primary consideration**: Cash flow projected to be sufficient to meet obligations (employees, vendors, creditors)
- **AB 506**: The ability for a local government to meet its financial obligations for a 60-day period

Cash and liquid assets

Fiscal Sustainability

- **Definition**: The state in which a city’s future budgetary resources are expected to be sufficient to sustain public services and meet obligations as they come due
- **Timeframe**: Mid- to long term (2 to 10 years)
- **Components**
  - Current and projected reserves
  - Projected receipts and spending
  - Projected debt
  - Projected fiscal gaps (deficits) or surpluses
  - Projected trends based on different scenarios

Reserves
El Cerrito’s Status
Pre-Pandemic
El Cerrito’s Fiscal Situation Before COVID-19

• Declining General Fund reserves fell below zero in FY 2018-19
• Long-term forecast expected higher revenues than expenditures, which the City has been working to address
The COVID-19 Recession: Unemployment Spike, Retail Collapse

- Nearly 38 million unemployment claims were filed from March 16 to May 16
- Prior six recessions pale in comparison to record-breaking job losses in this Pandemic
- Retail sales plunged a record-breaking 8.7% in four weeks
Key Forecast Assumptions

- **Shelter-in-place indefinite; some restrictions easing**
- **Gradual economic reopening over time**
- **Severity of the shutdown will have a **prolonged impact into the next fiscal year**
- **Potential for a **resurgence in the virus** that could lead to a second shelter-in-place in the winter**

### Financial Assumptions

- **Decline in sales tax (up to 10%)**
- **Decline in transient occupancy tax (up to 20%), returning slowly over the next four years**
- **Franchise Fee revenues expected to remain stable**
- **Decline in development fees (up to 20%), returning slowly over the next four years**
- **Decline in property values and taxes (up to 3%) in FY 2021-22, returning over a three-year period**
- **Decline in recreation fees (up to 25%), returning slowly over next two years**
- **Former RDA bond maturity and dissolution in FY 2025-26 will provide additional property tax revenues of $1.1 million annually**
- **No assumption for development activity not already under construction in San Pablo Avenue Corridor**
Impact on CalPERS Rates

- Current investment losses of **(4%)** for FY 2019-20 (3/31/20)
- A **(5%)** investment loss at 6/30/20 would increase El Cerrito’s overall employer costs by up to **$2.1 million per year through FY 2041-42** based on current staffing levels
- Likely to put pressure on further reductions to the discount rate from 7% to as low as 6%

Source: Bartel & Associates
Recession will significantly worsen the City’s fiscal situation

Reserves are already depleted and must be rebuilt

Immediate expenditure reductions are necessary

Federal aid would provide one-time assistance; not included because of uncertainties about availability
Recession forecast indicates an ongoing structural gap in the General Fund of nearly $4 million in FY 2021-22 that reduces to $2.2 million by FY 2026-27.

City must identify budget reduction strategies of over $4 million per year to regain solvency.
Proposed $2 million Budget Reductions Are Not Enough

- Reductions of $2 million already presented by staff and built into proposed FY 2020-21 budget
- Insufficient to close the gap caused by low reserves and COVID-19 pandemic recession
Budget Reductions of $4 million Only Regains Solvency

- An additional $2 million in budget reduction strategies is required to regain solvency
- Barely sufficient to restore the General Fund to a minimum reserve goal of 17% by FY 2026-27
- City will still be reliant on TRAN financing
- No assumptions were made with respect to federal aid
Budget Reductions of $5.5 million Required to Achieve Sustainability

- A total of at least $5.5 million in budget reductions beginning in FY 2020-21 are necessary to return the General Fund reserves to a sustainable level.
- Model includes service delivery restoration of up to $3.75 million per year beginning in FY 2024-25.
- No assumptions were made with respect to federal aid.
El Cerrito was in a fiscal emergency before the COVID-19 pandemic.

COVID-19 pandemic is exacerbating these challenges and causing revenue losses of $9.3 million and CalPERS increases of up to $2.1 million per year.

Elasticity of revenue sources will continue to impact the City in future recessions.

El Cerrito must immediately address the fiscal gap and adopt sustainability measures.

Adding new revenues is infeasible in the next 12 to 18 months.

Reduction of $5.5 million (~11.3%) in expenditures is required starting in FY 2020-21 to recover reserves to minimum level by FY 2023-24.

Expenditures totaling $3.75 million (~6.8%) could be restored beginning in FY 2024-25.
Fiscal Sustainability Strategies
Actions Taken by El Cerrito to Date

Net Fiscal Impact: Over $2 million per year starting FY 2020-21

- Renegotiating labor contracts with bargaining groups
- Holding open vacant positions
- Instituting hiring freezes
- Eliminating one school resource officer
- Transferring some parks maintenance, landscaping, and vegetation management expenditures to Measure H funding
Actions Taken by El Cerrito to Date

- Suspending or reducing programs (e.g., neighborhood traffic management, streetlight program, street banner program, etc.)
- Reducing expenditure categories
  - Professional services
  - Travel and training
  - Events and field trips
  - Public information printed materials
  - Supplies, equipment and vehicles in various departments

Net Fiscal Impact: Over $2 million per year starting FY 2020-21

<table>
<thead>
<tr>
<th>Department</th>
<th>Budget Reduction (Thousands)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Police</td>
<td>$816.5</td>
</tr>
<tr>
<td>Citywide</td>
<td>$430.0</td>
</tr>
<tr>
<td>City Administration</td>
<td>$169.2</td>
</tr>
<tr>
<td>Recreation</td>
<td>$163.0</td>
</tr>
<tr>
<td>Public Works</td>
<td>$152.5</td>
</tr>
<tr>
<td>Community Development</td>
<td>$141.2</td>
</tr>
<tr>
<td>Finance</td>
<td>$80.0</td>
</tr>
<tr>
<td>Fire</td>
<td>$79.0</td>
</tr>
</tbody>
</table>

Agenda Packet Page 23 of 160
Principles to Consider in Restoring General Fund Reserves

1. Do not fill any position vacancies until target reductions are achieved and reserves reach 10%.

2. When reserves reach 10%, begin rebuilding internal service fund set asides (equipment, technology, fleet) and consider filling vacancies on a case by case basis.

3. Apply one-time federal aid to restore General Fund reserves before restoring services.

4. Rebuild cut services only after reserve levels of 17% are reached.
What is a Fiscal Sustainability Plan?

• Comprehensive set of fiscal policies and action steps to provide services in the long term without threat of solvency or default of promised expenditures or liabilities

• In-depth analysis of fiscal strategies
  ▪ Fiscal impact
  ▪ Feasibility

• Implementation Action Plan

---

**Fiscal Sustainability Strategies**

- Expenditure controls and cost shifts
- Service delivery alternatives
- Revenue enhancements
- Service level reductions

---

Maintain service levels

---

Reduce services
Evaluating Fiscal Sustainability Budget Strategies

Criteria 1 – Citywide Priorities

- Top service priorities identified through the strategic planning engagement process

Criteria 2 – Program Service Attributes

- Key factors for evaluating the necessity and importance of specific programs or services
## Criteria 1 – Citywide Priorities

<table>
<thead>
<tr>
<th>Strategic Goals</th>
<th>Applicability</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>1. Secure the financial health and long-term sustainability of the City</strong></td>
<td>Short term (6 months)</td>
</tr>
<tr>
<td></td>
<td>Mid term (18 months)</td>
</tr>
<tr>
<td></td>
<td>Long term (5 years)</td>
</tr>
<tr>
<td>High</td>
<td>High</td>
</tr>
<tr>
<td><strong>2. Ensure public safety</strong></td>
<td>High</td>
</tr>
<tr>
<td><strong>3. Maintain public facilities and infrastructure</strong></td>
<td>Mid</td>
</tr>
<tr>
<td><strong>4. Sustain quality of life and sense of place</strong></td>
<td>Low</td>
</tr>
<tr>
<td><strong>5. Foster environmental sustainability citywide</strong></td>
<td>Low</td>
</tr>
</tbody>
</table>
## Criteria 2 – Basic Program Attributes

<table>
<thead>
<tr>
<th>Basic Program Attributes</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>A. Mandated to provide the program</td>
<td>The City is required to provide this program under 1) federal, state or county law; 2) contractual obligation without the ability to terminate; or 3) by City ordinance that would require a vote of the people to change.</td>
</tr>
<tr>
<td>B. Community reliance on the City to provide the program</td>
<td>Programs for which residents, businesses and visitors can look only to the City to obtain the service vs. programs that may be similarly obtained from another government agency or a private business.</td>
</tr>
<tr>
<td>C. Cost recovery of the program</td>
<td>Programs that demonstrate the ability to “pay for themselves” through user fees, intergovernmental grants or other specifically dedicated revenues vs. programs that generate limited or no funding to cover their cost.</td>
</tr>
<tr>
<td>D. Demand for the program</td>
<td>Programs demonstrating high levels of current or anticipated demand or usage vs. programs that show little demand or usage.</td>
</tr>
<tr>
<td>E. Portion of the community served</td>
<td>Programs that benefit or serve a large segment of the City’s residents, businesses and/or visitors vs. programs that benefit or serve only a small segment of these populations.</td>
</tr>
</tbody>
</table>
Each proposed budget reduction strategy is evaluated and scored using the criteria. The resulting composite score helps to inform Council deliberations and decision-making. The strategies that receive a lower overall score should be included in the fiscal response plan.

The total savings generated through proposed budget reduction strategies will need to achieve the fiscal target to ensure short and mid-term fiscal solvency to the City.
Strategic Service Reductions and Eliminations

Reduce service delivery to industry standard minimums

Reduce program service levels

Reduce/implement contract services

Eliminate Subsidies and Less Critical Programs
Initial General Fund Budget Strategies

Reduce Service Delivery to Industry Standard Minimums

<table>
<thead>
<tr>
<th>Budget Strategy</th>
<th>Recommended to Achieve Targeted Reductions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Library Services – Eliminate funding additional library hours above baseline hours provided by County</td>
<td>✓</td>
</tr>
<tr>
<td>Fire Apparatus Staffing – Maintain current engine staffing standards and eliminate vacant budgeted positions</td>
<td>✓</td>
</tr>
<tr>
<td>Fire Response – Partial reduction of Station 72 services</td>
<td>✓</td>
</tr>
<tr>
<td>Police Administration – Replace administrative oversight from sworn to non-sworn personnel</td>
<td>✓</td>
</tr>
</tbody>
</table>
## Initial General Fund Budget Strategies

### Reduce Program Service Levels

<table>
<thead>
<tr>
<th>Budget Strategy</th>
<th>Recommended to Achieve Targeted Reductions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fire Staff and Citizen Training – Eliminate dedicated resources to training and administration; staff CERT program with volunteers or assign to other non-sworn staff</td>
<td>✔</td>
</tr>
<tr>
<td>City Administration – Reduce public information and special projects support; reallocate only critical support services to appropriate staff</td>
<td>✔</td>
</tr>
<tr>
<td>Recreation Business Services – Reduce business services support</td>
<td>✔</td>
</tr>
<tr>
<td>Recreation Childcare Programs – Reduce programmatic support in childcare programs</td>
<td>✔</td>
</tr>
<tr>
<td>Police Services – Reduce special law enforcement services</td>
<td>✔</td>
</tr>
<tr>
<td>Police Services – Reduce dedicated traffic unit</td>
<td>❌</td>
</tr>
</tbody>
</table>
# Initial General Fund Budget Strategies

## Reduce/Implement Contract Services

<table>
<thead>
<tr>
<th>Budget Strategy</th>
<th>Recommended to Achieve Targeted Reductions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Custodial Services – Outsource custodial services to vendor</td>
<td><img src="https://via.placeholder.com/15" alt="Yes" /></td>
</tr>
<tr>
<td>Parks Landscape Maintenance – Reduce contract landscape maintenance service levels</td>
<td><img src="https://via.placeholder.com/15" alt="Yes" /></td>
</tr>
<tr>
<td>Public Works Engineering – Reduce engineering consulting services</td>
<td><img src="https://via.placeholder.com/15" alt="Yes" /></td>
</tr>
<tr>
<td>Financial Services – Outsource payroll processing and reporting</td>
<td><img src="https://via.placeholder.com/15" alt="Yes" /></td>
</tr>
<tr>
<td>Integrated Waste Program – Outsource recycling program to solid waste provider under franchise agreement when renewed and assess franchise fee of at least 15%</td>
<td><img src="https://via.placeholder.com/15" alt="No" /></td>
</tr>
</tbody>
</table>
## Eliminate Subsidies and Less Critical Programs

<table>
<thead>
<tr>
<th>Budget Strategy</th>
<th>Recommended to Achieve Targeted Reductions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Recreation Aquatics Program – Eliminate the General Fund subsidy (e.g., close during low demand months, shifting eligible expenses to Measure H, or eliminate program)</td>
<td>☑</td>
</tr>
<tr>
<td>Recreation Senior Center Programs – Eliminate the General Fund subsidy (e.g., contract services, lower-cost service delivery approaches, grant funding, implement fees, or eliminate programs)</td>
<td>☑</td>
</tr>
<tr>
<td>City Administration – Passport Acceptance Services</td>
<td>☑</td>
</tr>
<tr>
<td>City Administration – All published materials such as newsletters and brochures (publish online only)</td>
<td>☑</td>
</tr>
<tr>
<td>City Administration – Reduce staff support and eliminate appropriations for non-mandated commissions</td>
<td>☑</td>
</tr>
<tr>
<td>Fourth of July and other City Events (unless funded 100% through donations)</td>
<td>☑</td>
</tr>
</tbody>
</table>
## Summary of Recommended Budget Reduction Strategies

<table>
<thead>
<tr>
<th>Category</th>
<th>FY 2020-21</th>
<th>FY 2021-22</th>
<th>FY 2022-23 and Thereafter</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reduce service delivery to industry minimum standards</td>
<td>$428,250</td>
<td>$711,000</td>
<td>$711,000</td>
</tr>
<tr>
<td>Reduce program service levels</td>
<td>$851,000</td>
<td>$1,602,000</td>
<td>$1,602,000</td>
</tr>
<tr>
<td>Reduce/implement contract services</td>
<td>$263,750</td>
<td>$435,000</td>
<td>$435,000</td>
</tr>
<tr>
<td>Eliminate less critical programs</td>
<td>$417,250</td>
<td>$722,000</td>
<td>$722,000</td>
</tr>
<tr>
<td><strong>Subtotal – Identified strategies</strong></td>
<td><strong>$1,960,250</strong></td>
<td><strong>$3,470,000</strong></td>
<td><strong>$3,470,000</strong></td>
</tr>
<tr>
<td>City recommended budget strategies</td>
<td>$2,031,000</td>
<td>$2,031,000</td>
<td>$2,031,000</td>
</tr>
<tr>
<td><strong>Total Budget Reduction Strategies</strong></td>
<td><strong>$3,991,250</strong></td>
<td><strong>$5,501,000</strong></td>
<td><strong>$5,501,000</strong></td>
</tr>
</tbody>
</table>
Time is of the Essence

• Implementation must occur within the next three to six months to meet fiscal target
• Select budget strategies will require elimination of some filled positions
• Absent these strategic changes, the City will be forced to implement layoffs based on seniority until the fiscal requirements are achieved
Next Steps

This is the first step in the difficult conversation about achieving sustainable service delivery.

Based on Council feedback further analysis will be conducted to ensure the fiscal target is met.

Revised strategies will be presented to Council and implementation of the City’s Fiscal Response Plan will occur.
Thank you

Steve Toler, Partner
Nancy Hetrick, Vice President