

REPORT TO THE CITY COUNCIL



DATE: April 7, 2020

TITLE: Mid-Year Budget Adjustments for the 2019-2020 Fiscal Year

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RECOMMENDATION

Approve mid-year budget adjustments for the 2019-2020 Fiscal Year.

SUMMARY

There are several changes in the revenues of the Consolidated General Fund that are related to the COVID-19 crisis. Due to the measures enacted for combating the spread of COVID-19 (such as sheltering in place and the closing of hotels and vacations rentals), the forecasted revenues for transient occupancy tax, sales tax, and certain user fees and permits have been reduced significantly. In response to these negative impacts, Staff is reducing remaining budgeted expenditures by over \$500,000 by freezing all unfilled positions and postponing or canceling non-critical activities.

	FY 2019-20		FY 2019-20
	Budgeted		Proposed Amended
	Revenues		Revenues
Property Taxes	\$ 3,775,850	\$	4,220,008
Sales Taxes	1,900,000		1,800,000
Transient Occupancy Taxes	2,320,000		1,770,000
Cannabis Taxes - Dispensary	1,450,000		1,450,000
Cannabis Taxes - Cultivators	2,912,927		2,912,927
Other Taxes	1,635,013		1,635,013
Permits and Fees	2,342,000		2,577,000
Miscellaneous	1,449,612		1,517,132
Transfers In	108,000		108,000
Total:	\$ 17,893,402	\$	17,990,080

BACKGROUND

During the regular course of business, adjustments to the budget become necessary as new information for more accurate estimates become available. Staff is able to make changes to the forecasted revenues based on what is received during the fiscal year. In addition, as actual changes in programs occur such as salary and benefit costs change, changes in staff positions, and new or altered demands for contracted services, expenditure forecasts can be made more accurate. These adjustments allow for the City to continue daily operations, on-going repairs, maintenance, and improvements to the City's public facilities and to provide appropriations for unanticipated expenses.

The City's Finance Staff worked in cooperation with staff from other City departments to determine the what changes are needed for FY 2019-2020. The items presented here are the adjustments for FY2019-2020 for the City Council's review. As to date, these changes reflect decreases in revenues due to measures taken to combat COVID-19 and a downturn in the economy. City staff have also reduced expenditures in the Consolidated General Fund to offset the decreases in revenues.

DISCUSSION

Consolidated General Fund:

The Consolidated General Fund consists of three funds used to account for virtually all required services funded predominantly with discretionary revenue sources:

General Fund (Fund 001)
Emergency Reserve Fund (Fund 212)
Public Safety Fund (Fund 245)

The summary of the mid-year budget adjustments for FY2019-2020 in the Consolidated General Fund are as follows:

<i>Consolidated General Fund</i>	<i>FY2019-2020 Mid-Year Adjustments</i>
Revenues	292,678 increase
Operating Expenses	335,375 increase
Surplus (Deficit)	(42,697) deficit
Change in 25% set aside of Marijuana Revenues	0

Due to recent measures enacted for combating the spread of COVID-19, the forecasted revenues for transient occupancy tax, sales tax, and certain user fees and permits have been reduced significantly. Also, based on the likely impacts of COVID-19 negatively affecting the economy, estimates of the City's return on investments have also been reduced. However, overall decreases are being offset by increases in other revenue sources, forecasting an overall \$292,000 increase for the remainder of the fiscal year. These increases are for revenues already received that have exceeded the City's budget and from additional forecasted revenues from sources that are, so far, not affected by measures adopted to combat COVID-19 (such as property and parcel taxes). The revenue increases come from sources such as the Triple Flip VLF, administrative cost reimbursements, the safety parcel tax, and the Pass-Through Increment Revenue. The Pass-Through Increment Revenue is the City's allocation of the residual amount in the property tax trust after payment to the Successor Agency for its annual obligations. As the obligations of the Successor Agency are retired, more of the property tax increment is available for agencies receiving property taxes assessed in the City of Desert Hot Springs. Other significant increases include building plan check fees and engineering fees which are due to increases in economic and improvement activity within the City.

The mid-year budget adjustments for FY2019-2020 include an overall \$335,375 increase for expenses in the Consolidated General Fund (even after including the budget expenditure reductions in response to measures taken for COVID-19, which are discussed further below). The increased costs include additions to Public Safety services (such as overtime and compliance contracts), the feasibility study for CalChoice CCA Services, increased legal expenses, contract services for engineering analysis, and unanticipated building maintenance and repairs for the Police and Fire Stations. Other significant increases include additional transfers to the Cabot's Museum Fund and the City-Wide Landscape Maintenance District Fund. With the addition of new medians, traffic signals, and street lights, along with more repairs being required due to vandalism, the General Fund needs to contribute more funds to the City-Wide Landscape Maintenance District Fund to cover these rising costs.

Due to the financial impacts of the COVID-19 crisis, Staff has implemented several cost saving measures to address newly anticipated shortfalls. These measures include:

- \$238,000 in approximate cost reductions by freezing 5 vacant positions
- \$215,000 approximate savings by eliminating certain contract services and one-time costs that can be deferred
- \$38,000 approximate savings by cancelling all travel plans
- \$15,000 approximate reductions to other miscellaneous expenses.

With these mid-year budget adjustments, Staff is requesting the use of \$42,697 in unassigned General Fund balance for FY19-20. However, the FY19-20 Budget also contains an appropriation in the amount of \$103,000 for the CVAG Regional Homeless Program, which has currently not been paid. Should the City Council decide to hold off on that payment, this would allow Staff to cover the current budget amendments without reducing the General Fund balance and provide surplus the City could then direct towards immediate COVID-19 mitigation efforts (such as local food banks), or towards other emergency efforts as the COVID-19 crisis continues.

Restricted Funds:

Streets/Traffic Signals/ Bridges DIF Fund (103): - Increase expenditure budget appropriations in the amount of \$2,054,217 due to changes in current capital improvement projects and new projects started earlier in the year such as Palm Drive Bicycle/Pedestrian Improvements and Palm Drive Traffic Signal/Street Lighting projects. These costs will utilize monies already available in the fund.

General Facilities DIF Fund (104): - Increase expenditure budget appropriations in the amount of \$67,478 for the purchase of new equipment for the maintenance of vehicles due to the increase in the City's fleet. These costs will utilize monies already available in the fund.

Art in Public Places Fund (110): - Increase expenditure budget appropriations in the amount of \$61,400 for the Cabot's Stone Sculpture. These costs will utilize monies already available in the fund.

Quimby Act Fund (111): - Increase expenditure budget appropriations in the amount of \$253,800 for shade structures in Tedesco and Mission Springs parks and a new scoreboard for Wardman Park. These costs will utilize monies already available in the fund.

Measure A Fund (127): - Increase expenditure budget appropriations in the amount of \$146,400 for construction of new projects such as Street Name Signs and the I-10 Interchange and for additional supplies & maintenance costs for streets. These costs will be partially offset by additional Measure A revenue in the amount of \$20,000 and will utilize current Measure A revenue that was not previously appropriated.

SB1 Road Maintenance and Rehab Fund (142): - Increase expenditure budget appropriations in the amount of \$570,000 for changes in capital improvement projects such as Palm Drive Traffic Signals, Dillon Road Rehabilitation, and City-wide Asphalt Overlay, Paving and Road Reconstruction. These costs will utilize monies already available in the fund.

Health & Wellness Fund (211): - Increase expenditure budget appropriations in the amount of \$115,000 for the Furbee Pool splash pad upgrade. This project will utilize the funds from the John Furbee trust.

City Hall Relocation Fund (222): - Increase expenditure budget appropriations in the amount \$5,500,000 for the construction of the new City Hall. This is not a request to increase the city hall construction costs but to provide budget authority for the full cost of the construction which

was not known at the time of the preparation for the FY18-90 & FY19-20 2-Year budget and was not included in the FY19-20 Budget Adjustments brought before Council on October 1, 2019.

Abandoned Vehicle Abatement Fund (233): – Increase expenditure budget appropriations in the amount of \$25,000 in contract services. The increase in expenditure is offset by a \$25,000 increase in Abandoned Vehicle Abatements revenue.

Cabot's Museum Fund (270): - Increase expenditure budget appropriations in the amount of \$20,000 for increased utility and contract services costs. These increases are offset by an additional transfer of \$20,000 from the General Fund.

City Debt Service Fund (401): - Increase expenditure budget appropriations in the amount of \$5,500,000 for the transfer to the City Hall Relocation Fund. This is to transfer the remaining 2018 Bond proceeds to the City Hall Relocation Fund for the construction of City Hall.

Skyborne 2010 CFD Refunding Bond Fund (421): - Increase expenditure budget appropriations in the amount of \$293,463 for administrative cost reimbursements to the General Fund. This is a one-time increase as the administrative cost reimbursement for the General Fund was not transferred for the past several years. These costs will utilize monies already available in the fund.

City-wide Landscape/Lighting Maintenance District Fund (501): - Increase expenditure budget appropriations in the amount of \$230,000 to cover additional maintenance due to new medians, traffic lights, street lamps and repairs to damage caused by vandalism. These costs will be offset by an additional transfer of \$230,000 from the General Fund.

Housing Authority Fund (700): - Increase expenditure budget appropriations in the amount of \$39,539 for 50% of the salary of the Economic Development Manager position. These costs will be covered by additional revenue of \$380,158 from the SERAF loan repayment from the Successor Agency.

RDA Obligation Retirement Fund (911): - Increase expenditure budget appropriations in the amount of \$380,158 to transfer to the Housing Authority Fund for the SERAF loan repayment. The SERAF loan repayment is a recognized obligation of the Successor Agency and is funded by the property tax increment trust payment from the County Auditor-Controller.

Landscape Maintenance Districts (502-519): - Decrease expenditure budget appropriations by \$78,189 to reflect estimated costs needed for landscape maintenance in the various districts. The revenues will also be increased by \$17,716 based on updated assessment data. Any residual monies will remain in the individual funds for future uses. If an individual fund has an excess reserve balance, the assessment for that district could be reduced.

Drainage Assessment Districts (552-568): - Increase expenditure budget appropriations by \$33,252 for increased costs for drainage maintenance. The additional costs will be partially offset by increases in revenues in the amount of \$4,123 and the remaining will utilize monies already available in the individual funds.

Community Facilities Districts (569-599): - Increase expenditure budget appropriations in the amount of \$207,276 for contract services within each district. The additional costs will be offset by additional assessment revenues of \$1,615,513.

FISCAL IMPACT

For FY 2019-2020, these adjustments will change the projected revenues and expenditures in the Consolidated General Fund as follows:

Consolidated General Fund FY2019-2020 Budget	
Revenues	22,717,465
Expenses	22,982,184
Surplus (Deficit)	(264,719)
25% Set Aside of Marijuana Revenues	1,053,232

Estimated Ending Fund Balance at 6/30/2020:	
Emergency Reserve Fund	2,437,498
Unrestricted Consolidated General Fund Reserves	8,731,429
Estimated Ending Fund Balance Total	11,168,927

A deficit at the end of the fiscal year is expected due to City Council approving the use of fund balance to replace old, non-compliant heavy equipment in November 2019.

Streets/Traffic Signals/Bridges DIF Fund (103): - The overall fiscal impact increases expenditures by \$2,054,217.

General Facilities DIF Fund (104): - The overall fiscal impact increases expenditures by \$67,478

Art in Public Places Fund (110): - The overall fiscal impact increases expenditures by \$61,400.

Quimby Act Fund (111): - The overall fiscal impact increases expenditures by \$253,800.

Measure A Fund (127): - The overall fiscal impact increases revenues by \$20,000 and increase expenditures by \$146,400 for a net total (revenues less expenditures) of (\$126,400).

SB1 Road Maintenance and Rehab Fund (140): – The overall fiscal impact increases expenditures by \$570,000.

Health & Wellness Fund (211): – The overall fiscal impact is a net \$0 in changes.

City Hall Relocation Fund (222): - The overall fiscal impact increases budget approvals by \$5,500,000.

Abandoned Vehicle Abatement Fund (233): - The overall fiscal impact is a net \$0 in changes.

Cabot's Museum Fund (270): - The overall fiscal impact is a net \$0 in changes.

City Debt Service Fund (401): - The overall fiscal impact increases expenditures by \$5,500,000.

Skyborne 2010 CFD Refunding Bond Fund (421): - The overall impact increases expenditures by \$293,463.

City-wide Landscape/Lighting Maintenance District Fund (501): – The overall fiscal impact is a net \$0 in changes.

Housing Authority Fund (700): - The overall fiscal impact increases revenues by \$380,158 and increases expenditures by \$39,539 for a net total (revenues less expenditures) of \$340,619.

RDA Obligation Retirement Fund (911): – The overall fiscal impact increases expenditures by \$380,158.

Landscape Maintenance Districts (502-519): - The overall fiscal impact increases revenues by \$17,716 and decrease expenditures by \$78,189 for a net total (revenues less expenditures) of \$95,905.

Drainage Assessment Districts (552-568): - The overall fiscal impact increases revenues by \$4,123 and increases expenditures by \$33,252 for a net total (revenues less expenditures) of (\$29,129).

Community Facilities Districts (569-599): - The overall fiscal impact increases revenues by \$1,615,513 and increases expenditures by \$207,276 for a net total (revenue less expenditures) of \$1,391,715

EXHIBIT(S)

- 1) FY2019-2020 Mid-Year Budget Adjustments
- 2) LMD, DAD, and CFD Funds Budget Changes