



## ADMINISTRATIVE SERVICES DEPARTMENT

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### CITY COUNCIL STAFF REPORT

Meeting: April 28, 2020

#### Subject

COVID-19 Fiscal Impacts Update

#### Recommended Action

Accept the COVID-19 Fiscal Update

#### Discussion

This Update is intended to inform the Council and the public of the City's fiscal status resulting from COVID-19. It provides an intermediate update between the Mid-Year Financial Report presented to City Council on March 3, 2020 and the Third Quarter Budget Report that scheduled on May 19, 2020.

#### Sustainability Impact

There is no sustainability impacts associated with this item.

#### Fiscal Impact

##### **General Fund**

Due to the financial impacts of COVID-19, the City's revenues for Fiscal Year 2019-20 are expected to be \$11.3M less than originally expected. These losses are primarily in Transient Occupancy Tax and Charges for Services, as outlined in the following table (figures in millions). This table also reflects an anticipated transfer of \$10M from the Capital Projects Fund to the General Fund to mitigate the revenue losses from COVID-19.

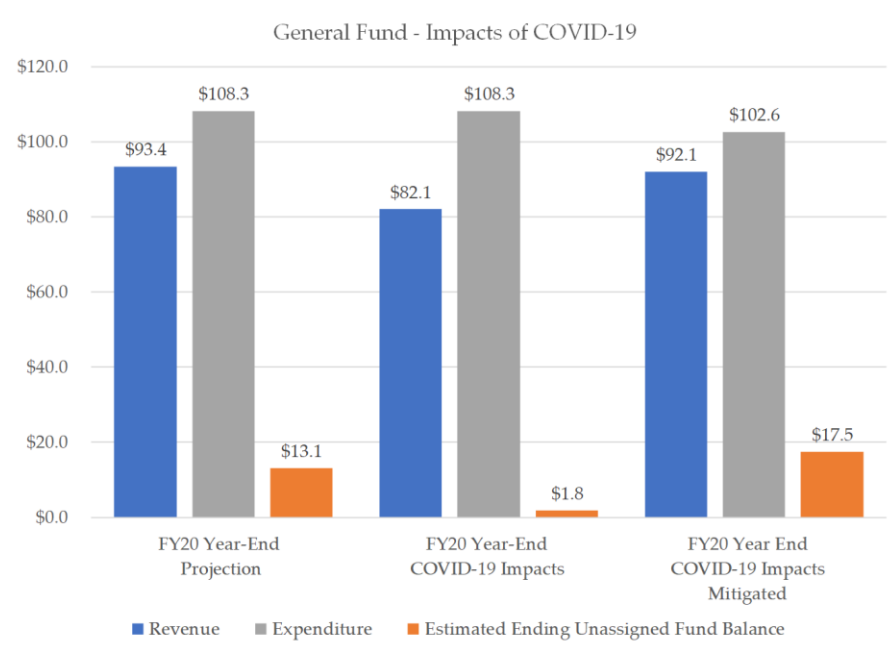
Revenue Categories	FY19/20 Year-End Estimates Pre- COVID 19	FY19/20 COVID-19 Impacts	FY19/20 COVID-19 Mitigation	FY19/20 Year-End Estimates Post COVID-19
<b>Revenue</b>				
Sales Tax	\$ 26.4	\$ -	\$ -	\$ 26.40
Property Tax	\$ 25.0	\$ -	\$ -	\$ 25.00
Transient Occupancy	\$ 9.7	\$ (3.7)	\$ -	\$ 5.98
Utility Tax	\$ 3.2	\$ (0.2)	\$ -	\$ 3.00
Franchise Fees	\$ 3.2	\$ -	\$ -	\$ 3.20
Other Taxes	\$ 1.2	\$ -	\$ -	\$ 1.20
Licenses And Permits	\$ 2.5	\$ -	\$ -	\$ 2.50
Use Of Money And Propert	\$ 1.3	\$ (0.1)	\$ -	\$ 1.19
Intergovernmental Revenue	\$ 0.4	\$ -	\$ -	\$ 0.40
Charges For Services	\$ 15.2	\$ (4.1)	\$ -	\$ 11.10
Fines And Forfeitures	\$ 0.6	\$ (0.2)	\$ -	\$ 0.40
Miscellaneous	\$ 1.8	\$ (0.5)	\$ -	\$ 1.30
Transfers In	\$ 0.01	\$ 0.01	\$ 10.00	\$ 10.02
Other Financing Sources	\$ 2.9	\$ (2.5)	\$ -	\$ 0.40
<b>Total Revenue</b>	<b>\$ 93.4</b>	<b>\$ (11.3)</b>	<b>\$ 10.0</b>	<b>\$ 92.1</b>

Other mitigation efforts included reducing expenditures. The following table outlines the City's expenditure reductions in the "FY19/20 COVID-19 Mitigation" column (figures in millions).

Expenditure Categories	FY19/20 Year-End Estimates Pre- COVID 19	FY19/20 COVID-19 Impacts	FY19/20 COVID-19 Mitigation	FY19/20 Year-End Estimates Post COVID-19
<b>Budget (Expenditures)</b>				
Employee Compensation	\$18.78	\$0.0	-\$0.18	\$ 18.60
Employee Benefits	\$7.84	\$0.0	\$0.0	\$ 7.84
Materials	\$4.54	\$0.0	\$0.0	\$ 4.54
Contract Services	\$23.05	\$0.0	\$0.0	\$ 23.05
Cost Allocation	\$9.79	\$0.0	\$0.0	\$ 9.79
Capital Outlays	\$0.71	\$0.0	\$0.0	\$ 0.71
Special Projects	\$11.43	\$0.0	-\$5.5	\$ 5.93
Contingencies	\$0.98	\$0.0	\$0.0	\$ 0.98
Transfer Out	\$30.89	\$0.0	\$0.0	\$ 30.89
Other financing uses	\$0.25	\$0.0	\$0.0	\$ 0.25
<b>Total Budget</b>	<b>\$ 108.3</b>	<b>\$ -</b>	<b>\$ (5.7)</b>	<b>\$ 102.6</b>

The following table summarizes the above information regarding revenues and expenditures. It outlines where the City was projected to end the year financially before COVID-19, after the negative financial impacts of COVID-19, and after taking into account COVID-19 and mitigation efforts by the City to be fiscally responsible. Without mitigation efforts to reduce the impacts of COVID-19, the City would have used almost all of the Unassigned Fund Balance. Unassigned Fund Balance is the remaining fund balance after accounting for revenues and expenditures. With mitigation efforts, the City will be able

to maintain a more positive position, projecting to end the year with \$17.5M in Unassigned Fund Balance. This additional Unassigned Fund Balance will be available to assist in balancing the FY 2020-21 budget and budgets into the future should assumptions change or revenue estimates fall short.



### Special Revenue Funds

In the Special Revenue Funds, COVID-19 most heavily impacted the Transportation Fund. This fund receives revenues from the Road Maintenance and Rehabilitation Account (RMRA) and the Highway Users Tax Account (HUTA) derived from portions of State excise (per gallon) taxes on gasoline and diesel, and vehicle registration taxes. Conservatively estimated declines in these funding sources are 20% for RMRA and 30% for HUTA. The estimated decline in these revenues totals approximately \$200,000 in the Transportation Fund. Declines in FY 2020-21 are anticipated to be much smaller, but new projections will be provided as more information and data is made available.

Expenditures incurred for on-going projects in Special Revenue Funds will continue to slow down during the current fiscal year. The chart below lists the City's Special Revenue Funds' estimated revenues, expenditures, and FY 2019-20 ending fund balance after accounting for COVID-19 impacts.

FY 2019-20	
Beginning Fund Balance	\$ 34,088,513
Projected Revenues	\$ 5,618,590
Projected Expenditures	\$ (10,537,227)
Estimated Fund Balance	\$ 29,169,875

### Capital Project Funds

The City's Capital Projects Funds began FY 2019-20 with \$33.2M in fund balance. The Funds' total amended revenue budget of \$43.1M is unlikely to be affected by COVID-19. The vast majority of these funds are derived from internal transfers into the funds, with the excess coming from donations received from Apple for the Bicycle Pedestrian Plan projects.

Without taking internal transfers into consideration, the Capital Projects Funds' amended expenditure budget is currently \$43.5M and the timing of those expenditures will be affected by Shelter in Place orders. Based on fourth quarter trend analysis, and factoring in the delay/halt of construction, the total FY 2019-20 expenditures are conservatively estimated to be \$6.2M million.

The Capital Projects Funds' FY 2019-20 ending fund balance is estimated to be \$39M as shown in the following table. These numbers include a \$10M transfer from the Capital Projects Funds to the General Fund to mitigate the revenue losses due to COVID-19.

FY 2019-20	
Beginning Fund Balance	\$ 33,211,943
Projected Revenues	\$ 38,152,607
Projected Expenditures	\$ (32,300,865)
Estimated Fund Balance	\$ 39,063,685

### Enterprise Funds

The City's Enterprise Funds consist of the Resource Recovery (Res. Rec.), Blackberry Farm Golf Course (Golf), Sports Center, and Recreation (Rec.) Funds. Revenues have been heavily impacted at Blackberry Farm Golf Course, the Cupertino Sports Center, and in Recreation programming. It is reasonable to assume that there will be no additional revenues in these funds for the remainder of the fiscal year.

FY 2019-20	Res. Rec.	Golf	Sports Ctr.	Rec.
Beginning Fund Balance	\$ 5,485,695	\$ (16,289)	\$ 748,347	\$ 1,838,753
Projected Revenues	\$ 1,011,195	\$ 872,697	\$ 4,489,257	\$ 1,978,962
Projected Expenditures	\$ (2,092,617)	\$ (596,450)	\$ (3,718,734)	\$ (2,734,978)
Estimated Fund Balance	<u>\$ 4,404,273</u>	<u>\$ 259,958</u>	<u>\$ 1,518,870</u>	<u>\$ 1,082,737</u>

Assuming no additional revenues, each of the Enterprise Funds are anticipated to end FY 2019-20 with a positive fund balance. This is due to revenue streams that have been very healthy pre-COVID-19. Despite a strong fund status prior to COVID-19, lost revenue during the fourth quarter will be mitigated by a spending reduction on

general service contracts to maintain operations.

The impact of COVID-19 on the City's financial condition is significant. Although the City is currently well-positioned to absorb the initial impact, forecasting the longer-term timing and extent of impacts presents a challenge. As we look to the upcoming 2020-21 fiscal year, the City will be experiencing significant declines in sales tax and potential drops in property tax. Recommendations on a budget strategy to address these impacts will be included in FY 2020-21 Proposed Budget for Council consideration in May.

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Approved for Submission by: Deborah Feng, City Manager

Attachments:

A – Federal, State, and Private Emergency Assistance Funding Matrix