CITY OF TEMECULA / TEMECULA COMMUNITY SERVICES DISTRICT
AGENDA REPORT

TO: City Council / Board of Directors

FROM: Aaron Adams, City Manager / Executive Director

DATE: October 27, 2020

SUBJECT: Approve Fiscal Year 2020-21 Budget Adjustments

PREPARED BY: Jennifer Hennessy, Director of Finance

RECOMMENDATION: That the City Council approve the recommended adjustments to the Fiscal Year 2020-21 Annual Operating Budget and Fiscal Years 2021-2025 Capital Improvement Program Budget by adopting the following resolutions entitled:

RESOLUTION NO. 2020-

A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF TEMECULA, AMENDING THE FISCAL YEAR 2020-21 ANNUAL OPERATING BUDGET

RESOLUTION NO. CSD 2020-

A RESOLUTION OF THE BOARD OF DIRECTORS OF THE TEMECULA COMMUNITY SERVICES DISTRICT OF THE CITY OF TEMECULA AMENDING THE FISCAL YEAR 2020-21 ANNUAL OPERATING BUDGETS

RESOLUTION NO. 2020-

A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF TEMECULA AMENDING THE CAPITAL IMPROVEMENT PROGRAM FISCAL YEARS 2021-2025 AND AMENDING THE CAPITAL IMPROVEMENT BUDGET FOR FISCAL YEAR 2020-21

BACKGROUND: On June 9, 2020, the City Council adopted the Fiscal Year 2020-21 Annual Operating Budget and the Fiscal Years 2021-2025 Capital Improvement Program Budget. The revenue and expenditure assumptions in these budget documents included several assumptions regarding the impact of the COVID-19 global pandemic. As presented at that time, Staff committed to providing the City Council an update in October, as more information regarding the true impact of the pandemic became available.

Fiscal Year 2019-20 Annual Operating Budget (AOB) Results

The Fiscal Year 2019-20 AOB was revised during the onset of the COVID-19 global pandemic. During these unprecedented times, it was difficult-at-best to project the economic impact of the stay-at-home orders and subsequent business closures. As reflected in the budget, a significant revenue reduction was anticipated, as summarized in the table below:

COVID-19 Impact to City Revenue Sources		
	Mar-Jun'20	FY20-21
Sales Tax	(6,612,629)	(5,686,237)
Measure S Tax	(5,279,316)	(346,571)
TCSD Program Revenue	(824,330)	-
Transient Occupancy Tax	(816,822)	(570,441)
Gas Tax	(343,516)	(521,795)
Measure A Tax	(250,000)	(428,000)
Property Tax	(278,528)	(656,098)
RMRA Revenue	(137,869)	(322,472)
Other General Fund Revenue	(108,625)	(248,256)
Total Revenue Impact	**(14,651,635)**	**(8,779,870)**

The largest anticipated impacts were to Sales Tax and Measure S revenue, at nearly $12 million in FY19-20 alone. Additionally, with several hotels closed, Transient Occupancy Tax was anticipated to decline significantly. TCSD shuttered its facilities and canceled programs and events for the remainder of the year. To balance the General Fund, Measure S and TCSD Funds, several expenditure reduction measures were factored into the AOB.

Fortunately, the actual FY19-20 revenues were not as significantly impacted as originally projected, and the General Fund's Ending Balance was more favorable than reflected in the AOB.

General Fund revenue losses were anticipated to exceed $8 million due to the pandemic. As shown below, the actual loss was just under $3.6 million, due to a variety of factors that impacted consumer behavior differently than anticipated.

	FY19-20 Mid-Year Budget	Revised Budget	Projected Loss	Projected % Loss	FY19-20 Actual	Actual Loss	Actual % Loss	Variance from Revised Budget
Sales Tax	37,981,346	31,368,717	(6,612,629)	-17.4%	35,274,337	(2,707,009)	-7.1%	3,905,620
Transient Occupancy Tax	3,579,819	2,762,997	(816,822)	-22.8%	2,662,876	(916,943)	-25.6%	(100,121)
Property Tax	8,772,073	8,493,545	(278,528)	-3.2%	8,831,452	59,379	0.7%	337,907
Other General Fund Revenue	30,590,090	30,137,949	(452,141)	-1.5%	30,578,736	(11,354)	0.0%	440,787
General Fund	80,923,328	72,763,208	(8,160,120)	-10.1%	77,347,402	(3,575,926)	-4.4%	4,584,194

Sales Tax exceeded budget projections by $3.9 million. Overall, the budget assumed 2nd Quarter Sales Tax would decline by 38% but the actual loss was only 11%. Most surprisingly, the Autos & Transportation sector grew by 5% during the 2nd Quarter (April-June 2020) as compared to the prior year. The Food & Drug sector grew by 12%.

The City's Sales Tax consultants, HdL Companies, provided the following observations that affected consumer behavior which resulted in less of a decline than originally projected:

- High-level unemployment rates were primarily felt in the lower wage service sectors, which produce a lesser share of total sales tax revenues.
- Knowledge workers including professionals, analysts and marketers continued to work from home and experienced an increase in disposable income due to reduced commutes and work-related costs combined with less entertainment/travel options.
- Low interest rates and favorable lending practices allowed for extra money to be spent on previously put-off items, such has home improvements and autos.

- Housebound consumers with disposable income, coupled with business closures, created a record number of online shoppers, increasing the Sales Tax pool allocations.

General Fund expenditures finished the year significantly below budget projections, due primarily to conservative spending patterns and lower legal expenses than forecasted. Total expenditures were nearly $4.7 million below budget projections.

General Fund - Year-End Results	FY18-19 Actuals	FY19-20 Revised Budget	FY19-20 Unaudited Actuals (as of 10/14/20)	FY19-20 Variance
Total Revenues & Transfers In	80,178,501	72,763,208	77,347,402	4,584,194
Total Expenditures	70,033,852	77,515,370	72,821,600	4,693,770
Total Transfers Out/One-Time Pmts	(7,158,723)	(6,025,120)	(5,663,044)	(362,077)
Revenues Over/(Under) Expenditures	**2,985,926**	**(10,777,282)**	**(1,137,242)**	**(9,640,040)**
Beginning Fund Balance	30,727,978	33,713,904	33,713,904	
Ending Fund Balance	**33,713,904**	**22,936,621**	**32,576,661**	**9,640,040**

The unanticipated year-end surplus of $9.6 million is recommended to be programmed in the Fiscal Year 2020-21 AOB, as outlined in the subsequent sections of this Agenda Report. Reliance on the City's Secondary Reserve to balance the General Fund is no longer required, and reserves are fully-funded throughout the ensuing five-year forecast.

Fiscal Year 2020-21 Annual Operating Budget (AOB) Adjustments

With more favorable revenues received in FY19-20 combined with less spending than anticipated, a significant year-end surplus is available to restore many of the budgetary reductions factored into the FY20-21 AOB, as a result of the pandemic.

A thorough review of all revenues, operating expenditures and capital projects has been conducted by management, and several budgetary adjustments are recommended and summarized below, by Fund.

General Fund Recommendations

Total General Fund revenue is recommended to be increased by $4,181,886 to reflect the better-than-expected results realized in Sales Tax ($2,205,264) and Property Tax ($398,000), as well as other revenue adjustments to Franchise Fees ($250,000), Use of Money and Property (-$68,886) and Reimbursement revenue ($15,000). Additonally, the City was granted an allocation of $1,382,508 in Federal CARES Act funding as reimbursement for expenditures incurred to respond to the pandemic.

General Fund Expenditures are projected to increase by $2,168,122 due to the restoration of budgets that were reduced in the Adopted Budget, necessary to balance the General Fund. These adjustments are itemized on the attached Exhibit 1 to the City Resolution, and are summarized by major categories below:

- $68,775 in Personnel Expenditures for a temporary position needed for public outreach related to the COVID-19 pandemic and to correct an administrative error in the AOB.

- $266,465 to restore Staff Training/Education, including $100,000 for the Workforce Strategic Plan, to coordinate Citywide training in support of the newly created Race, Equity, Diversity and Inclusion (REDI) Commission.
- $517,561 to restore annual charges for the future replacement of existing assets (Fleet, Technology, Support Services and Facilities Replacement).
- $250,000 to restore the storm drain inlet filters replacement program, in accordance with the San Diego Regional Water Quality Control Board mandate to install approximately 543 inlet filters by 2030.
- $18,401 in miscellaneous adjustments to various departmental budgets.
- $1,046,920 in Purchase Order/Program budget rollovers from the prior fiscal year and current year budget adjustments.

Transfers Out and One-Time Payments are projected to increase by $2,362,077 to account for the budget rollover from the prior fiscal year for the Sidewalks-DLR Drive Capital Improvement Project ($362,077) and the transfer of $2,000,000 to the PARS Pension Trust, in accordance with Budget Policy XII.B.2.

General Fund Ending Balance is projected to be $28,842,119 at the end of Fiscal Year 2020-21, which is nearly $10 million higher than the original projection, due to more favorable revenue despite the continuing global pandemic. Reserves are projected to be fully funded at $19,935,950, representing 25% of General Fund Operating Expenditures.

The General Fund 5-Year Forecast is balanced in all years, and is attached as Exhibit A.

Measure S Fund Recommendations

Measure S revenue exceeded budget projections for the prior fiscal year, creating a FY19-20 Ending Fund Balance of $15,445,692. Of this balance, $10,872,639 is already committed to capital projects and will roll-forward to FY20-21. The remaining surplus is recommended to be programmed in accordance with Budget Policy XI.B., which prioritizes Measure S Funds be dedicated to fund Public Safety, Asset Management, Capital Improvement Projects, and General Services:

- $500,000 to restore the contribution to the Fleet Replacement Fund
- $500,000 to restore the contribution to the Technology Replacement Fund
- $2,000,000 to restore the contribution to the Street Maintenance Fund
- $1,000,000 to accelerate the completion of the CRC Splashpad and Shade Structure project
- $1,400,000 in new funding to complete the Margarita Recreation Center project

Measure S Ending Fund Balance is projected to be $3,293,638 at the end of Fiscal Year 2020-21. Attached, as Exhibit B, is the Measure S 5-Year Forecast.

Temecula Community Services District (TCSD) Fund Recommendations

Undoubtedly, TCSD was the hardest hit department within the City. TCSD had to shutter its facilities, cancel programs and events, and lay-off 129 part-time project employees as a result of the pandemic. As part of the development of the FY20-21 TCSD Budget, it was assumed that facilities, programs and events would resume July 1st. However, the pandemic has persisted and TCSD remains in a state of shut-down, with few exceptions. As such, a significant amount of

budget adjustments are necessary to reflect the reduced level of operations.
Total TCSD Program Revenue reflects a reduction of $1,128,712, while Expenditures reflect a reduction of $694,583, which are itemized by division on the attched Exhibit 1 to the TCSD Resolution.

The Library fund reflects a reduction of $7,207, due to the shift of security services from the City to the County (-$21,487) offset by the restoration of the Facilities Annual Replacement contribution of $10,766 and the Support Services Replacement contribution of $3,514. The TCSD 5-Year Forecast is attached as Exhibit C.

At this point in time, it is assumed that TCSD will slowly introduce programming where permitted by the State's regulations. Most activities are presumed to be restored in January 2021, however, the City will adjust as needed to offer programming to its citizens as soon as feasible once the State's COVID-19 metrics are met.

Special Revenue Funds Recommendations

Community Development Block Grant (CDBG) – reflects the unanticipated revenue from the CDBG-CV grant in the amount of $864,764. Programming of these funds will be discussed at the Finance Committee in October and brought forward to the City Council in November.

Street Maintenance Fund – reflects a $2,000,000 contribution from Measure S that was restored due to the favorable FY19-20 Measure S Fund Balance.

CARES Act Fund – reflects the creation of the new fund to account for the Federal CARES Act allocation of $1,382,508. These funds will reimburse the General Fund for COVID-19 related expenditures incurred in the prior fiscal year.

Affordable Housing Fund – reflects an adjustment of $883 as a result of the Internal Service Fund allocation from the Technology and Support Services Funds.

Development Impact Fees Fund – reflects the transfer of $600,000 to the Capital Improvement Program for the Margarita Recreation Center project, and $2,000,000 for the Ynez Road Improvements-Phase I project (from Rancho Vista Road to Rancho California Road).

Public, Education, Government (PEG) Fund – reflects the restoration of $100,000 in eligible Capital Outlay expenditures for audio-visual production equipment and storage, as reflected on Exhibit D – Fiscal Year 2020-21 Capital Outlay.

Internal Service Funds Recommendations

Workers' Compensation Fund – reflects the restoration of $14,000 in the Staff Training/Education budget.

Information Technology Fund – reflects the restoration of $47,243 in the Staff Training/Education budget, offset by a -$15,300 reduction in Equipment Lease which was erroneously budgeted.

Technology Replacement Fund – reflects the restoration of $295,000 in Capital Outlay requests, summarized in Exhibit D – Fiscal Year 2020-21 Capital Outlay.

Support Services Replacement Fund – reflects the restoration of $60,000 in Capital Outlay for the annual copier lifecycle replacement program.

Facilities Fund – reflects the restoration of $1,530 in the Staff Training/Education budget.

Fiscal Years 2021-2025 Capital Improvement Program (CIP) Adjustments

With the favorable Measure S results in FY19-20, additional resources are available to complete select capital projects earlier than reflected in the Adopted CIP:

Ynez Road Improvements
This capital project is requested to be split into two phases, to better reflect the anticipated timing and funding available for this road segment.

Phase 1 – includes the widening of the easterly side of Ynez Road, from Rancho Vista Road north roughly 1100 feet, to two lanes in each direction and the completion of the missing segment of curb, gutter, sidewalk and landscaped medians. A total of $2,000,000 in Development Impact Fees-Street Improvements is recommended to be programmed in FY20-21 ($500,000) and FY21-22 ($1,500,000).

Phase 2 – includes the continuation of the existing project design, with construction deferred to FY24-25, when a future funding source is identified. This project includes the widening from Rancho Vista Road to La Paz Street to two lanes in each direction and the completion of the missing segments of curb, gutter, sidewalk, landscape medians, street lights and the modification of the traffic signal at Santiago Road. The project total is estimated to be $6,571,766, of which $5.6M in funding is unspecified.

Community Recreation Center Renovations
Construction funding for this capital project had been programmed to begin in FY23-24 in the Adopted Budget. $1,600,000 in Measure S funding has been accelerated to FY22-23, to begin this project sooner than anticipated.

Community Recreation Center Splashpad & Shade Structures
Funding for this capital project had been shifted out to FY2023-24 in the Adopted budget due to funding constraints. With additional Measure S revenue available, the $1,000,000 in funding has been accelerated to FY2020-21.

Margarita Recreation Center
This project was originally budgeted at $8,656,508, however the construction bids came in nearly $2 million higher than programmed in the Adopted Budget. To close the budget gap an additional $1,400,000 in Measure S funds and $600,000 in Development Impact Fee-Parks/Recreation funds

are requested to be programmed in FY20-21 and FY21-22, respectively, in order to complete this heavily desired community center.

Schedule of Authorized Positions Adjustments

Attached, as Exhibit E, is an updated Schedule of Authorized Positions, which reflects the funding of a previously frozen position, organizational changes as well as clerical corrections to the previously published version.

The vacant Community Services Specialist I position, which supports the Mary Phillips Senior Center and Human Services division was previously frozen. TCSD has requested to fill this position.

The Business License Technician position within the Finance Department has been changed to an Accounting Assistant-Cashier position.

The Risk Manager position within TCSD has recently been vacated. This position has been moved under the Human Resources Department.

An erroneous clerical error was reflected in the Adopted Schedule of Authorized Positions, noting a total of three Associate Civil Engineers and one Associate Engineer II, within the Land Development/NPDES section of Public Works. This has been corrected to show two of each position.

Next Steps

Given the level of uncertainty of the local economy during this COVID pandemic environment, management will continue to monitor revenues and expenditures and will provide the City Council an update in February 2021, as part of the Fiscal Year 2020-21 Mid-Year Budget process.

FISCAL IMPACT: See Exhibits A, B, C and D for the fiscal impacts by fund.

ATTACHMENTS:

1. City Resolution
2. TCSD Resolution
3. Capital Improvement Program Resolution
4. Exhibit A – General Fund Five Year Forecast
5. Exhibit B – Measure S Five Year Forecast
6. Exhibit C – TCSD Five Year Forecast
7. Exhibit D – Fiscal Year 2020-21 Capital Outlay
8. Exhibit E – Schedule of Authorized Positions