



**Financial Forecast -
Revenue and Expense Modifications
due to COVID-19**



**City of Los Altos Financial Commission – City Council Joint Meeting
May 26, 2020**



OUTLINE

- Fiscal Impact
 - Revenue Assumptions
 - Expense Adjustments
- Budgetary Caution
- Regular Council Review of Financial Position
- Systematic Fiscal Impact Analysis
- Litigation Analysis and Management
- Appropriate Budgeting of Capital Investment
- Community Center Loan
- Next Steps

CURRENT FUND BALANCES

Current Fund Balances	
Emergency and Operating Reserves	8,250,374
OPEB	1,500,000
PERS Reserve	5,000,000
Technology Reserve	1,574,089
CIP Reserve*	900,000
Community Center Reserve*	11,700,000
Equipment Reserves	1,078,044
*Estimates as of May 15, 2020	

KEY REVENUE ASSUMPTIONS FOR FY 2021

Projected FY 2021 COVID-19 Impacts	Original Budget	Reduction Est.	Projected Reduction	Revised Projected Revenue
TOT	3,764,400	50%	(1,882,200)	1,882,200
Sales Tax	3,301,400	50%	(1,320,560)	1,980,840
Community Development	3,623,600	10%	(362,360)	3,261,240
Recreation	1,477,000	40%	(590,800)	886,200
Other	839,440	30%	(251,830)	587,610
TOTAL	13,005,840	-	(4,407,750)	8,598,090

This represents a 9% projected revenue loss for FY 2021 compared to original estimate

Other Revenue:

Gas Tax \$700K and SB1 \$519K (2.7% increase over last year)

EXPENSE ADJUSTMENTS FOR FY 2021

- Services and Supplies - line by line analysis and reductions – Estimated \$75K
- Personnel Costs
 - Vacancy Savings – Estimated \$1M
 - Release of certain temporary part time employees
 - Ongoing negotiations with labor groups
- Offset in part by increase in Legal Fees – \$400K
- CIP Defer / Cancel Projects – TBD June 9

CREATING A BALANCED BUDGET

WHAT ARE WE TRYING TO SOLVE?

Projected 2-year Fund Balance	FY 2020	FY 2021	2-year Estimate
Anticipated Revenue	45,500,000	48,262,754	
Anticipated Expenses	40,600,000	43,468,033	
Projected Fund Balance	4,900,000	4,794,700	
Est. COVID-19 Reductions	2,750,000	(4,407,750)	
Adjusted Fund Balance Projection	2,150,000	387,000	2,537,000
*if no reductions are made			

Avail. Fund Balance is required to fund annual CIP, PERS Unfunded Liability, and 20% Reserve
Mandatory CIP expenses will automatically be budgeted in the future

BUDGETARY CAUTION: FY 2021 & FY 2022

- Approve a balanced budget at ~10% reduction in revenue for next two years
 - Include essential and scheduled repairs (CIP)
 - Budget realistically for litigation fees and possible judgments
 - Continue debt service for Community Center

REGULAR COUNCIL REVIEW OF FINANCIAL POSITION

- Systematic Fiscal Impact Analysis
- Mandatory Quarterly financial review
 - Standard Reports from new accounting system
- Mandatory Fiscal Impact Analysis for expenditures not in budget
 - Assume all funds are already allocated. How to fund this new expense?

LITIGATION ANALYSIS AND MANAGEMENT

- Budget realistically for litigation fees
- Book known liabilities – Currently no funds are reserved for possible judgments
- Legal costs vs. competing priorities
- Dollar for dollar Impact

APPROPRIATE BUDGETING OF CAPITAL INVESTMENT

- Change practice of ‘revenue over expense’ CIP allocation
 - Include annual CIP as an element of budgeted expenditures
 - Divide CIP into 3 Categories:
 - Essential and Scheduled Maintenance in annual budget
 - Projects covered by other Funds (not general Fund)
 - Create Reserves in General Fund for special projects

REQUIRED LOAN FOR COMMUNITY CENTER

- The Community Center will NEED a loan. Loan was budgeted in FY 2020+
 - City Reserves at start of project: \$25M
 - Anticipated additional Park-in-Lieu of \$10M did not materialize
 - Current Project Cost: \$38M
 - No other major source of funding except a Loan
 - Loan is not a bad option for a long-term asset - pay as you use
 - Cost of money is cheap - focus on debt service capacity
 - Current and Future Park in-Lieu receipts eligible to fund project
- Status of Loan: July to Council for review

NEXT STEPS

- FY 2021 Budget Study Session – June 9th
- Updated Two-year Forecast
- Prioritize / Defer / Cancel CIP Projects
- Adopt Revised budget for FY 2020-21 – June 23
- Understand and Plan for the Future
 - 9-10% Reduction in Revenue for FY 2021
 - Complete funding of \$38M Community Center
 - Fund CRITICAL CIP Priorities
 - Realistically address legal costs and related risks



QUESTIONS / DISCUSSION



5-YEAR FORECAST

	Pre COVID-19		FY 2021	FY 2022	FY 2023	FY 2024	FY 2025
Revenue	48,262,754		43,855,000	46,058,900	47,262,800	47,262,800	47,762,800
Expenses	43,468,033		43,468,000	43,876,600	44,289,000	44,705,346	45,125,570
Fund Balance	4,794,721		387,000	2,182,300	2,973,800	2,557,454	2,637,230
CIP Projects	2,850,000						
20% Reserve	450,000						
PERS Reserve / Payment	1,000,000						
Total	4,300,000						

Estimated 5-year Total Fund Balance \$10.7M

Basic Assumptions:

Sales Tax, TOT and Recreation Revenue significant drop FY 2021 the recovers slowly in FY 2022+

Property Tax growth stable then decreases to 4% FY 2023 and FY 2024

Expenses grow at 3% annually, 98% spent

