

2020-21
Third Quarter Budget Update



**Finance
Committee**

May 13, 2021



Economic Overview

- Economic activity and employment have continued to improve in recent months
- Economists expect recovery during 2021, but not to pre-pandemic levels
- Transient occupancy tax revenues rebounded to 60% of pre-pandemic levels in October before dropping due to the new stay-at-home order, and are now approaching the 60% level again
- Movement into the State's orange tier and increasing vaccination rates have had a positive impact on sales tax and transient occupancy tax revenues

Unemployment	March 2021
United States	6.0%
California	8.3%
Orange County	6.4%

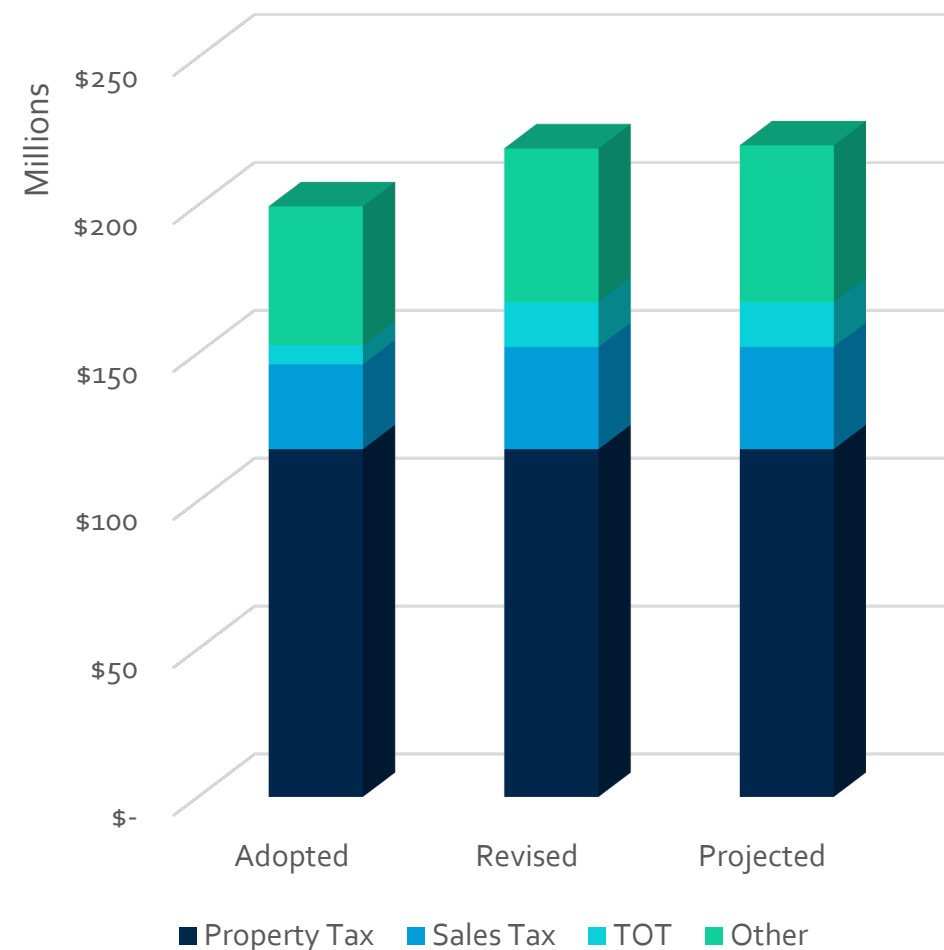
Economic Indicators	2020	2021
Leisure and Hospitality Jobs	- 24%	+ 9%
Food and Drink Spending	-24%	+ 13%
Home Prices	+ 8%	+ 4%
Vehicle Purchases	- 24%	+ 13%



Projected General Fund Revenues

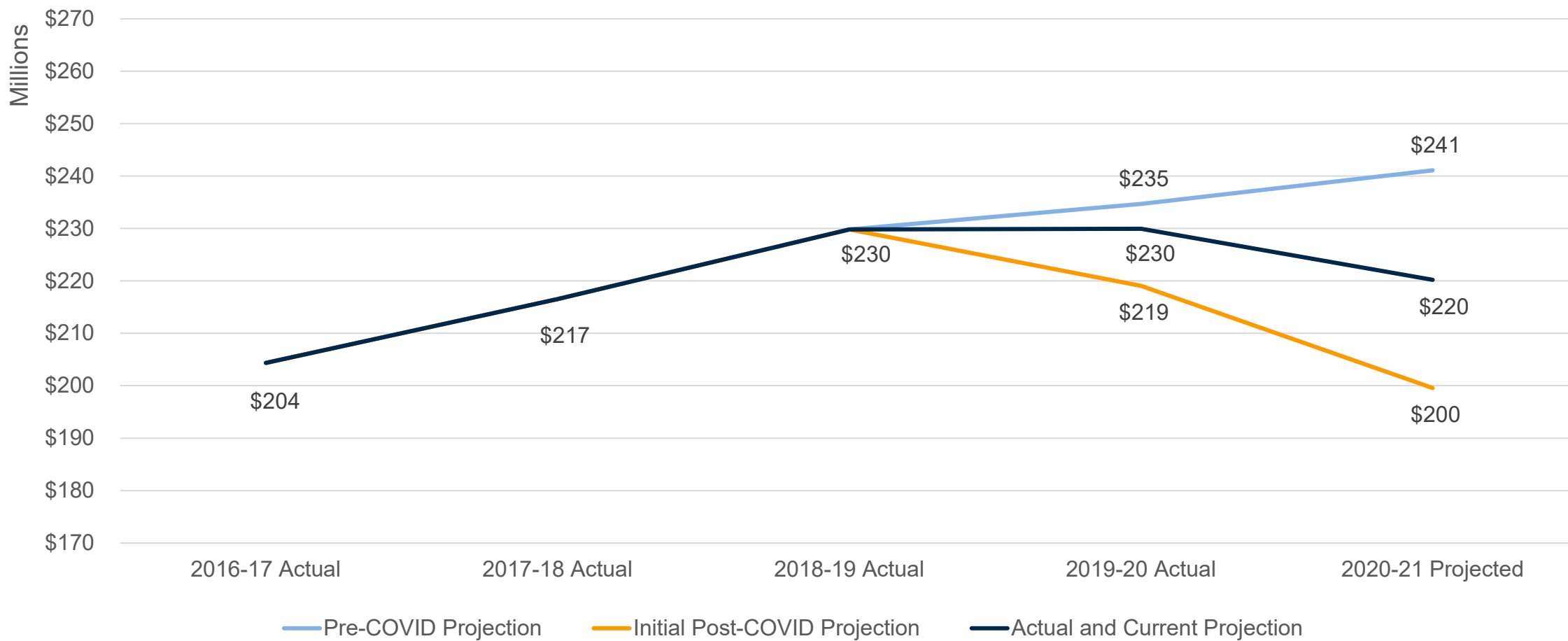
Adopted Budget	\$ 199.6 million
Revised Budget	\$ 219.2 million
Third Quarter Projection	\$ 220.2 million

- \$20.6 million of projected positive variance
- \$1.6 million improvement from second quarter
- Continuing positive trends seen in the third quarter





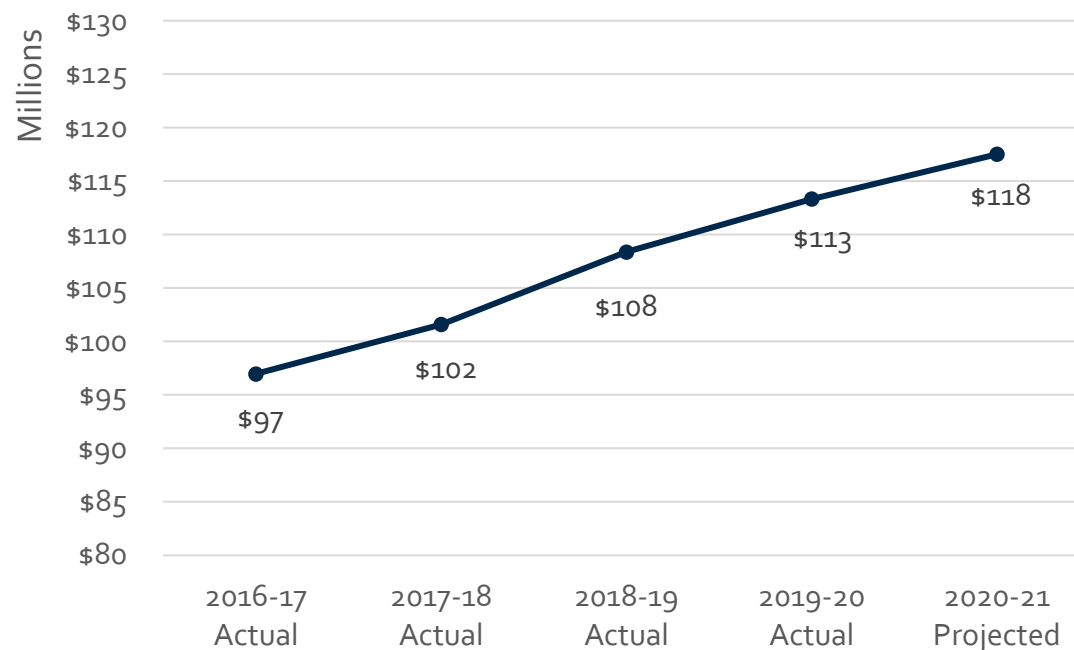
Historical General Fund Revenues





Property Tax

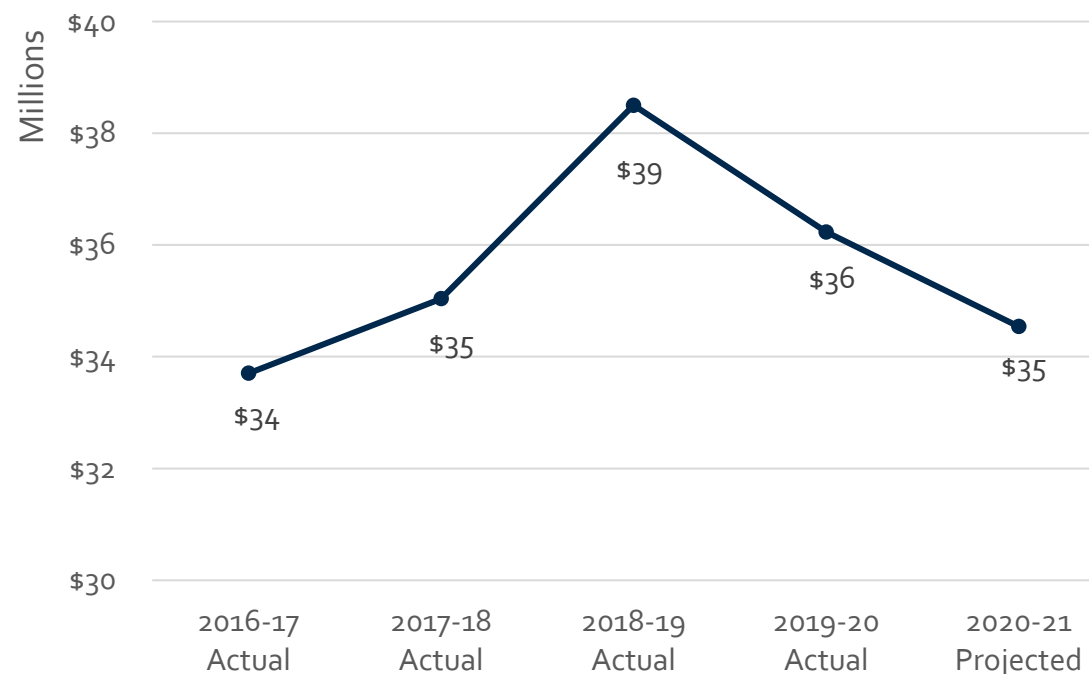
- Minimally impacted by the pandemic (at least in the short term)
- Represents approximately 50% of General Fund revenues
- Variances within revenue categories, but in total on track
- No changes have been made to the original revenue estimate





Sales Tax

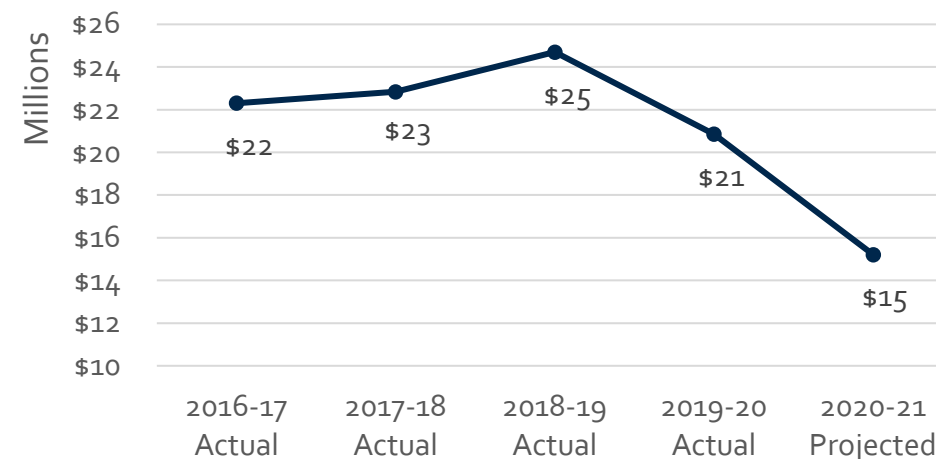
- Sales tax revenues were impacted by the pandemic-related restrictions and a decline in tourism
- Businesses pivoted in creative ways to reach their customers and generally are operating now that the County is in the orange tier
- Consumer spending continuing to strengthen and adapt
- \$5.8 million (20.4%) projected improvement above the \$28.7 million adopted budget
- Recovery to pre-pandemic level of revenue is imminent



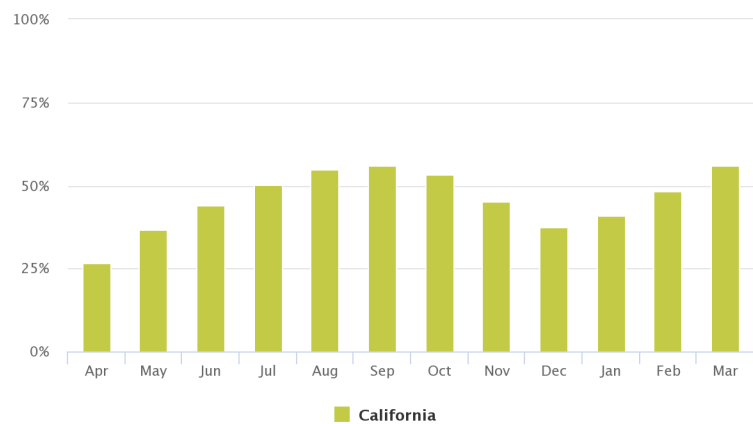


Transient Occupancy Tax

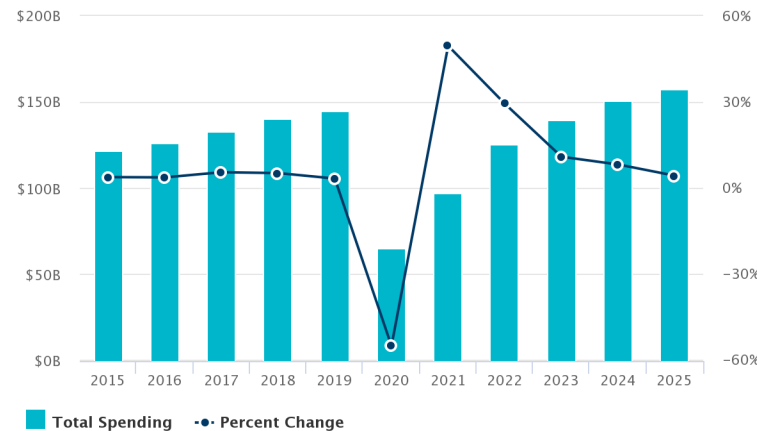
- Transient occupancy tax was the City's most severely impacted revenue source as a result of the pandemic
- Business travelers have largely not returned, but leisure travelers are coming back strong
- \$8.8 million (136.4%) projected improvement above the \$6.4 million adopted budget



CALIFORNIA HOTEL OCCUPANCY



Total ANNUAL TRAVEL SPENDING & VISITATION





Other General Fund Revenues

- 20% reduction in the adopted budget
- \$6.0 million above adopted budget through March
- Parking revenues very strong
- Property transfer tax higher than expected
- Reduced fees and charges revenues primarily due to recreation programs (partially offset by reduced expenditures)



Projected General Fund Expenditures

Adopted Budget	\$ 219.9 million
Revised Budget	\$ 228.1 million
Third Quarter Projection	\$ 226.8 million

- \$1.3 million projected expenditure budget savings
- Savings may be below typical level due to budget reductions and assumed salary savings
- Through March, 67% of revised budget expended
- All departments are performing as expected
- Additional \$5 million pension payment made, bringing the total to \$40 million



General Fund Reserves

- Higher than originally budgeted revenues and lower than budgeted costs are anticipated to result in a strong year-end budget surplus
- Currently projected to be \$30.6 million, up \$3.1 million from the second quarter
- Opportunities for positive or negative variances remain, but trends have been generally positive year-to-date

	2019-20 Actual	A 2020-21 Adopted Budget	2020-21 Revised Budget	B 2020-21 Projected Actual	C=B-A Variance	D=C/A % Variance
Sources						
Beginning Unrestricted Fund Balance	23,119,513	14,425,558	24,081,225	24,081,225	9,655,667	66.9%
Operating Revenues	229,953,017	199,583,904	219,183,931	220,207,798	20,623,894	10.3%
Less: Restricted Revenues	(2,785,622)	(730,967)	(815,145)	(815,145)	(84,178)	11.5%
Prior Year Resources Carried Forward	1,744,227	-	2,075,632	2,075,632	2,075,632	-
Release of Restricted Funds	2,492,301	20,000	3,645,023	3,645,023	3,625,023	18125.1%
Transfers In from Other Funds	12,970,571	17,560,543	17,846,785	18,574,821	1,014,278	5.8%
Total Sources	\$ 267,494,007	\$ 230,859,038	\$ 266,017,451	\$ 267,769,354	\$ 36,910,316	16.0%
Uses						
Operating Expenditures	211,066,539	219,859,038	228,051,765	226,794,867	6,935,829	3.2%
Transfers Out	32,346,243	11,000,000	10,398,018	10,422,340	(577,660)	-5.3%
Total Uses	243,412,782	230,859,038	238,449,783	237,217,207	6,358,169	2.8%
Ending Unrestricted Fund Balance	\$ 24,081,225	\$ -	\$ 27,567,668	\$ 30,552,147	\$ 30,552,147	-
Contingency Reserve	\$ 52,618,059	\$ 50,313,660	\$ 52,618,059	\$ 52,618,059	\$ 2,304,399	4.6%



Context for Projected Budget Surplus

- Of the \$30.5 million of currently projected year-end surplus, only \$6.5 million related to the current fiscal year
- \$24.1 million attributable to carried forward surplus from the prior two fiscal years that was intended to balance the budget
 - \$11.5 million FY 2018-19 surplus
 - \$12.6 million FY 2019-20 surplus
 - Need has been offset by higher revenues
- Budget cuts that have not yet been restored total \$30.2 million

	2020-21 Projected Actual
Sources	
Operating Revenues	220,207,798
Less: Restricted Revenues	(815,145)
Prior Year Resources Carried Forward	2,075,632
Release of Restricted Funds	3,645,023
Transfers In from Other Funds	18,574,821
Total Sources	\$ 243,688,129
Uses	
Operating Expenditures	226,794,867
Transfers Out	10,422,340
Total Uses	237,217,207
Current Year Contribution to Surplus	\$ 6,470,922



Tiered Budget Balancing Framework

- Tier 5 and partial Tier 4 cuts restored at the first quarter budget review
- Tier 1 and Tier 2 cuts expected to be achieved
- Recommendations to be included in the upcoming FY 2021-22 budget presentation to restore all of the remaining cuts other than those that are not necessary

	Tier 1 Operating Cuts	Tier 2 Temporary Hiring Freeze	Tier 3 Deferred Capital	Tier 4 ISF Charge Reductions	Tier 5 Contingency Reserve	Tier 6 Service Level Cuts	Total
Professional and Contract Svcs.	\$ 1,621,760	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,621,760
Other Non-Personnel Budgets	1,136,807	-	-	-	-	-	1,136,807
Personnel Services	-	2,000,000	-	-	-	-	2,000,000
Transfers Out	-	-	18,477,137	500,000	-	-	18,977,137
Capital Budgets	-	-	2,500,000	-	-	-	2,500,000
Insurance	-	-	-	2,000,000	-	-	2,000,000
Equipment Replacement	-	-	-	2,500,000	-	-	2,500,000
Contingency Reserve Draw	-	-	-	-	2,304,399	-	2,304,399
Total	\$ 2,758,567	\$ 2,000,000	\$ 20,977,137	\$ 5,000,000	\$ 2,304,399	\$ -	\$ 33,040,103
Cuts Restored in First Quarter	-	-	-	(500,000)	(2,304,399)	-	(2,804,399)
Revised Total	\$ 2,758,567	\$ 2,000,000	\$ 20,977,137	\$ 4,500,000	\$ -	\$ -	\$ 30,235,704



Recommended Action

Staff recommends that the Finance Committee:

- Review and discuss this report
- Provide any recommendations for consideration by the City Manager and the City Council



Questions?