



City of Merced

MERCED

Office of the City Manager & Administration (209) 385-6834 (Office) www.cityofmerced.org

May 13, 2020

Merced City Council
678 W 18th Street
Merced, CA 95340

Re: Presentation of Fiscal Year 2020-2021 City Manager's Recommended Budget

Honorable Mayor and City Council:

I hereby submit the Fiscal Year 2020-21 City Manager's Recommended Budget for your review and consideration, in accordance with the City of Merced Charter Section 501(b). Your department heads and staff continue meeting the challenges presented to them, not only as the COVID-19 pandemic evolves, but also in providing for the necessary adjustments that allow a balanced budget to be presented to the City Council.

At the onset of developing the FY 2020-21 Budget, the City of Merced's financial outlook was positive. Indicators such as, unemployment figures falling to single digits, building activity trending toward record-highs, and several new businesses slated to open later this fall demonstrated the City's momentum. The City Council started the budget process by holding Town Halls in South, Central, and North Merced. Taking input from residents, the Council established their upcoming Goals & Priorities addressing direct neighborhood improvements, enhancing youth services, allowing for the planning of future projects, and continuing efforts to revitalize Downtown, regional transportation, other economic development and housing efforts.

However, with the arrival of the novel coronavirus pandemic in early February, coupled with Governor Newsom's Stay-at-Home Orders, the City of Merced's economic outlook is rapidly changing. The University of Pacific is projecting Merced's unemployment rate to reach 20.5% by May 2020, equating to a potential loss of 6,970 jobs within the City. In addition, the closing of non-essential businesses created a drastic reduction in economic activity across all business sectors. We are now experiencing declining revenues in not just sales tax, but also transient occupancy tax, gas tax, business license and inspection fees, and other contract revenues. For the close of Fiscal Year 2019-20, and moving into the start of fiscal year 2020-21 these impacts are expected to amount to approximately \$5.4 million in lost revenue.

With these challenges in mind, the fiscal year 2020-21 Budget is presented with the priority of maintaining essential services to the community, minimizing impacts to existing staffing levels, and incorporating as many Goals & Priorities as allowed under current fiscal constraints.

FY 2020-21 City Budget

The total Fiscal Year 2020-21 City Manager's Recommended Budget is \$265.3 million, which is an increase of \$10.8 million from the previous year of \$254.5 million. This is primarily due to the continued expansion of housing developments throughout the City and the necessary capital improvement projects to renovate and expand water and sewer services. The General Fund budget remains relatively level at \$43.9 million, with the only increase in expenses directly related to the \$2.0 million Redevelopment Agency Settlement payment budgeted as a re-occurring expense. The management of staffing will be key in providing the City Council with the greatest flexibility to continue balancing the budget moving into future years. This budget as presented, recommends the deletion of one position and the holding of five positions vacant.

Key Budget Issues

COVID-19 Revenue Impacts – With the closure of several local businesses and reduced economic activity across all business sectors, the projected loss of revenue for both the current and future fiscal years is estimated at approximately \$5.4 million, as outlined below:

- Sales Tax Reduction - \$3,186,329
- Transient Occupancy Tax Reduction - \$664,740
- Gas Tax Reduction - \$978,241
- Business Tax and Licenses Reduction - \$345,636
- Other Contractual Reductions - \$218,335

Moving through the summer and into fall, revenues will be monitored closely to allow for spending curtailment, should the need arise.

On-going Liabilities & Operational Increases – The City has reached a settlement with the California Department of Finance related to the dissolution of Redevelopment, with assets being formally transferred to the State from Public Financing Economic Development Authority (PFEDA). The City has already begun repayment of the \$9.5 million obligation, with the second payments, totaling \$2.0 million, accounted for in this year's budget. In addition to the Redevelopment settlement, annual CalPERs contributions continue to increase related to the policy decisions of lowering the assumed discount rate from 7.5% to 7%, and decreasing the amortization of unfunded liability over 20 years from 30 years. Contributions increased this year by \$828,658 and are expected to increase by an additional \$2.6 million over the next three fiscal years. Other operational factors continue to play a significant role in the increases to the FY 2020-21 Budget. Over the past five years, workers compensation expenses, deferred facility maintenance, and vehicle maintenance continue to pose significant increases to operations. As the City moves forward with the implementation of the Enterprise Resource Planning or ERP system, additional

financial contributions will be required to complete the project.

Use of One-Time Revenue – After the reduction of anticipated revenue due to COVID-19, budget expenses being held at prior-year levels and recommending positions to be held vacant, the proposed fiscal year 2020-21 Budget was still faced with a \$1.1 million General Fund shortfall. In order to balance, the use of one-time revenue is being recommended, including:

- Programing Cannabis Revenue - \$412,227
- Trust 115 Reimbursement - \$330,000
- Development Service General Fund Supplement Reimbursement - \$400,000

The use of these funds will ensure that the fiscal year 2020-21 Budget is balanced, while staff continue to take a prudent approach to the management of expenses through the uncertain times ahead.

Goals and Priorities Update

Over the last four years, the City Council has taken strategic steps in planning for the future of the City. Because of these efforts, staff continues to work towards the completion of several Goals & Priorities that had previous funding allocations. Faced with difficult budgetary decisions, some areas will require greater creativity to achieve the desired outcome for the community.

Youth Services – Several school programs, summer programs and recreational activities have been placed on hold throughout the country as officials evaluate the safest options for allowing for youth activities while accommodating social distancing. In working with Merced County and neighboring school districts, these options are still being evaluated for the summer, and possibly the fall. Because of this uncertainty, the budget reflects a reduction in summer programs across the board, including support for the Boys & Girls Club Summer Program, community grant funding for summer services and direct Parks & Recreation programs. Staff will continue to monitor these guidelines closely to allow for immediate reinstatement of programs as guidelines are approved.

Beautification, Future Planning, Economic Development, & Downtown – Much work has been done to plan for investment across all areas of the City. However, not all projects have received funding over the years. Several will still need to be evaluated as we move forward, including:

- Enhanced Park Maintenance & Playground Equipment
- Welcome Signs/Entry Points
- Future Police Station & other Public Facilities
- Quiet Zones/Rail Safety
- Rebranding Merced Neighborhoods
- City Outskirts Services/County Islands
- Enhanced Infrastructure Financing Districts (EIFD)
- Economic Opportunity Zone Prospectus
- Bob Hart Square Extension

- Parking Solutions in the Downtown
- Property Based Improvement District (PBID)

The Recession of 2009 placed the City of Merced in a critical position to address fiscal sustainability. Since then, the City Council tempered difficult financial climates with calculated investments in budget and planning efforts to restore the foundation of City services. The City of Merced is no stranger to hard times. As we look to the future, we recognize that several issues still present a budgetary challenge, including the reemergence of COVID-19. Even so, your staff stand ready to meet these uncertainties with budgetary solutions that ensure the long-term fiscal success of the City of Merced.

Sincerely,



Steven S. Carrigan
City Manager