



Memorandum

Date: June 23, 2020

To: Honorable Mayor McGallian and Members of the City Council

From: Valerie J. Barone, City Manager

Subject: **Adopted Adjustments to the Biennial Budget for Fiscal Years 2019-20 and 2020-21 and an Updated Long-Range Financial Forecast**

Report in Brief

On June 9, 2020, the City Council held a budget study session for the proposed adjustments to the City's Operating Budgets for FYs 2019-20 and 2020-21. At the study session, the City Council and the public received a presentation on the proposed adjustments to the General Fund Operating Budget for FYs 2019-20 and 2020-21 as well as the General Fund Long-Range Financial Forecast. The public was provided an opportunity to address the Council, and Council asked a number of questions. On June 23, 2020, City Council held a public hearing on the budget, approved adjustments to the Operating Budget for the General Fund and Other Funds, and a number of other budget-related documents. At the hearing, some updates to the June 9 staff report were presented and an amendment to staff's recommendations was approved by Council. This memorandum is intended to present the final outcome of all approved adjustments.

FY 2019-20

General Fund: The approved budget adjustments reduce revenues by \$6.2 million and reduce expenditures by \$2.2 million.

Previous actions taken by the City Council and City Manager reduced expenditures an additional \$1.56 million.

The approved budget assumes the use of \$11.2 million of the City's reserves and an end of year reserve of 25%.

Measure Q: The approved budget adjustments reduce revenues by \$1.0 million.

Non-General Funds: The approved budget adjustments reduce expenditures in the Information Technology (IT) Operating Fund (634) by \$0.47 million. IT operations are accounted for in a separate fund independent of the General Fund. Approximately 85% of the savings in the IT department affect the General Fund.

FY 2020-21

General Fund: The approved budget adjustments reduce revenues by \$13.0 million and reduce expenditures by \$9.0 million and proposes the use of \$6.2 million in reserves. The end of year reserve is projected to be just over 20%.

Measure Q: The approved budget adjustments reduce revenues by \$1.6 million.

Non-General Funds: The fiscal impact on non-General Fund budgets is listed below.

- Downtown Landscape Maintenance District (210): \$168,398 Appropriation
- Sewer Operating Fund (710): \$85,000 Appropriation
- Building Maintenance Fund (630): Eliminate \$11,009 of programmed spending
- Golf Course Fund (700): \$33,978 Appropriation
- IT Operating Fund (634): Eliminate \$993,630 of programmed spending
- IT Replacement Fund (636): Eliminate \$496,996 of programmed spending

Background

On June 9, 2020, the Council held a study session on the proposed adjustments to the City's FYs 2019-20 and 2020-21 Operating Budgets. The Staff Report for that meeting can be found [here](#).

The public hearing on June 23, 2020 was the final meeting related to the budget, and staff recommended that the City Council take all necessary actions to adopt the adjustments to the Operating Budgets.

Not unique to Concord, the City is in a very fluid state—no one knows how long the shelter-in-place order will last, or the impacts of challenges to safely reopen, and how hard it will hit the City's revenues and the local economy. Therefore, staff prepared the best estimates of realistic expectations. However, the financial hit from COVID-19 could be much more significant, including a potential second wave of COVID-19. More information will be available in the fall. If revenue declines are steeper than projected, staff will return to Council this fall with updated projections and additional proposed adjustments.

It is important to note that while efforts are underway to provide relief to local governments to assist with revenue shortfalls, currently the City of Concord is receiving no support or relief from the Federal or State governments to backfill the loss of revenue. The City will be receiving funding through the State's CARES program but only to offset direct costs in responding to COVID-19, not for lost revenues. The other program we are much more hopeful over is less likely to occur – the HEROES Act – introduced by the Democrats at the Federal level. Should this pass, it would make significant funding available to cities and counties to make up for lost revenues.

However, there is not agreement in Washington on this program so no aid was incorporated into the recommended budget adjustments. Should aid become available, staff will return to Council with an update.

Council Goals

City Council's guiding goals for addressing the fiscal challenge are as follows:

- **Reserve Target:** Reserve target end of FY 2020-21 of 20%, which requires \$11 million in budget cuts or new revenue. Maintaining a 20% reserve is critical because the situation is fluid. The City needs to be able to react without going into bankruptcy if the impact from the COVID-19 pandemic is deeper or longer than projected. A 20% reserve represents about 2.5 months of operating costs.
- **Thoughtful:** Prioritize essential services and make necessary operating and staffing changes to meet the challenge.
- **Transparent:** Share information openly. Explain decisions and their impacts.
- **Respectful of Employees:** Recognize through the process that employees are the City's most valuable asset and the means by which services are delivered to the community.
- **Equitable & Proportional Impacts to Employee Groups:** To the extent feasible, impacts are spread across all employee groups, both represented and non-represented.

As a result of the shelter-in-place order, most of the categories of revenue the City of Concord depends on to support operations and capital projects have been, or will be, negatively affected by this global crisis.

Staff worked diligently to project the fiscal impact the crisis will have on City revenues and brought forward the estimated impacts, based on current knowledge. Staff also recommended budget stabilization measures to mitigate projected decreases to the City's various revenue streams.

Fiscal Sustainability Ordinance

There are numerous policies and ordinances that guide the preparation of the City's budget. One of critical importance is the City's Fiscal Sustainability Ordinance (Chapter 3.20 of the Concord Municipal Code). This ordinance ensures the City continues to employ accountable and responsible fiscal strategies in keeping with our City's tradition of careful financial stewardship of taxpayer dollars. It specifies that one-time¹ revenues are used for non-recurring, rather than ongoing, expenditures and further defines the uses for which the City shall employ such funds. The City Council retains the authority

¹ One-time revenues are revenues the City receives on a nonrecurring basis (usually only received in one annual budget) and/or that are unexpected, unanticipated, and not included in the baseline revenue projections in the budget or amended budget.

to allocate these funds from the following categories: annual recommended contributions to long-term liabilities², infrastructure maintenance backlog, unfunded post-employment benefits, special or one-time, nonrecurring expenditure needs of the city, or strengthening the city's general fund reserves.

This report provides financial updates for FYs 2019-20 and 2020-21 and adopted adjustments, consistent with the City's Fiscal Sustainability Ordinance.

Discussion

The report is divided into the following parts for ease of reading.

Part I: FY 2019-20 Review and Adopted Adjustments

Part II: FY 2020-21 Review and Adopted Adjustments

Part III: Long-Range Forecast Update

Part IV: Conclusion

Part I: FY 2019-20 REVIEW AND ADOPTED ADJUSTMENTS

Staff prepared a fiscal analysis based on information received from the State, consultants, industry experts, staff, and historical knowledge and analysis from the impacts of the Great Recession. In order to begin planning for anticipated significant negative impacts, we have assumed operations impacted by the shelter-in-place order will continue to be curtailed for the remainder of the calendar year.

Neither the Governor's nor the County Health Officer's order has an end date; it is expected that a gradual lifting of the order will occur over the remainder of the year. It is also likely that most public gatherings will be banned or discouraged over this time period.

This analysis is focused on the City's General Fund.

FY 2019-20 Revenues

The overall estimated change to General Fund revenues are estimated to be **a loss of 6.5%**.

Table 1 below summarizes the City's projected revenues for FY 2019-20.

² Annual Recommended Contributions means the annual amount of funds that an actuarial study recommends the City deposit and set aside annually in a Post-Employment Benefit plan to fully fund Post-Employment Benefits over time.

Table 1: Estimated Revenue Impacts (in millions)

FY 2019-20				
Regular Revenues	Budget	Revised	Adj	Percentage Change
Property Tax	27.9	28.1	0.2	0.7%
Sales Tax	35.4	31.8	(3.6)	-10.2%
Franchise Fees	7.8	8.1	0.3	3.8%
TOT	2.9	2.1	(0.8)	-27.6%
Business License Fees	4.1	3.6	(0.5)	-12.2%
Charges for Services	10.5	8.3	(2.2)	-21.0%
Other	8.2	8.6	0.4	4.9%
General Fund Total	96.8	90.6	(6.2)	-6.4%
Measure Q Total	13.7	12.7	(1.0)	-7.3%
Total Revenues	110.5	103.3	(7.2)	-6.5%

Property Tax: Property taxes are expected to remain relatively flat for FY 2019-20.

Sales Tax: The reduction in sales tax revenue is based on the City's sales tax consultant's projections. They estimate an approximately 10% reduction in sales tax for FY 2019-20. The hardest hit areas are auto sales, motor vehicle fuel sales, and the shift from take-out dining to groceries, as the latter is not taxable. The only area seeing increases is the County Pool revenue due to increased online sales.

Franchise Fees: Franchise Fees are expected to remain relatively flat for FY 2019-20.

Transient Occupancy Tax (TOT: hotel tax): TOT is expected to decline due to hotel occupancy rates decreasing. Travel has been significantly impacted by the shelter-in-place order and it is expected travel will be slow to recover after the order is lifted.

Business License Fees: Business License Fees are issued on a rolling 12-month period, so for the current year, most businesses have already renewed and paid their business license fee. Business License fee revenue has only been reduced 12% for FY 2019-20.

Charges for Services, Licenses, and Permits: This category is down due to the closure of most City programs and suspended construction activity during the initial phases of the shelter-in-place. Staff is estimating that the revenue for this category has declined 21% for FY 2019-20.

Other Revenues: In FY 2019-20, there is a \$979,000 increase due to one-time revenues from the disposition of Successor Agency property. The Real Estate Transfer Tax is also recorded in Other Revenues and it is expected that few real estate transactions will occur in the remainder of the current fiscal year, with a projected decrease in revenue of \$500,000.

Measure Q: Measure Q revenues are projected to decrease \$1 million in FY 2019-20 based on the City’s sales tax consultant’s projections.

Additionally, \$700,000 in Measure Q reserves were approved by Council during the Mid-Year budget update to be used for CIP projects.

FY 2019-20 Expenditures

The following two tables summarize the budget stabilization measures approved for FY 2019-20 and the recommended adjustments to the various departments’ budgets.

Table 2: FY 2019-20 Department Budget Stabilization Measures

Department Expenditures	Savings from Freezing Vacancies	Operational Savings	Total Cost Controls	Percentage of Budget
City Attorney	-	-	-	0%
City Manager / City Council	19,000	162,000	181,000	4%
Community Development	175,000	389,000	564,000	5%
Finance	-	65,000	65,000	2%
Non-Departmental	-	200,000	200,000	2%
Human Resources	22,000	18,000	40,000	2%
IT Operating	108,000	365,000	473,000	12%
Parks and Recreation	14,000	284,000	298,000	5%
Police	485,000	70,000	555,000	1%
Public Works	41,000	247,000	288,000	3%
Total Department Expenditures	864,000	1,800,000	2,664,000	2%

Overall, estimated operating savings amounts to \$2.7 million in FY2019-20.

A. FY 2019-20 General Fund Expenditures Reductions (\$2.2 million)

1. Salary savings from Council foregoing 10% of their salary and from Unrepresented and Confidential groups’ furloughs, and suspending managers’ 401k contributions result in a savings of \$756,000.
2. Savings from reducing operating expenses such as supplies, travel, training and contracts, results in a savings of \$1,359,500.

B. FY 2019-20 Adjustments approved for non-General Fund accounts (\$472,500)

1. IT Operating Fund (634): \$472,500 in savings
 - o Salary savings from Unrepresented and Confidential groups furloughs, and suspending managers 401k contributions (\$107,500)
 - o Supplies, training, and contracts (\$365,000)

PART II: FY 2020-21 REVIEW AND ADOPTED ADJUSTMENTS

FY 2020-21 Revenues

The overall estimated change to General Fund revenues are estimated to be a loss of 13% for FY 2020-21.

Table 3 below summarizes the City’s projected revenues for FY 2020-21. The table includes the approved new revenues discussed later in the report.

Table 3: Estimated Revenue Impacts (in millions)

FY 2020-21				
Regular Revenues	Budget Revised		Adj	Percentage Change
Property Tax	29.0	27.5	(1.5)	-5.2%
Sales Tax	35.4	30.1	(5.3)	-15.0%
Franchise Fees	7.9	7.6	(0.3)	-3.8%
TOT	3.2	1.5	(1.7)	-53.1%
Business License Fees	4.2	3.2	(1.0)	-23.8%
Charges for Services	10.8	7.7	(3.1)	-28.7%
Other	7.9	7.8	(0.1)	-1.3%
General Fund Total	98.4	85.4	(13.0)	-13.2%
Measure Q Total	13.7	12.1	(1.6)	-11.7%
Total Revenues	112.1	97.5	(14.6)	-13.0%

Property Tax: In theory, any declines in Property Tax revenue due to the current economy would not be seen until FY 2021-22, as assessments are based on January 1 valuations. Contra Costa County, along with a number of other counties throughout the State, received an extension to August 9, 2020, to complete the annual assessment role upon which our property taxes are calculated. The Contra Costa County Assessor was aggressive in writing down property values during the Great Recession; thus, staff is building in a loss of 5% of value to Concord’s secured property roll for FY 2020-21.

Sales Tax: The reduction in sales tax revenue is based on the City’s sales tax consultant’s projections. They estimate an approximately 15% reduction in sales tax for FY 2020-21. The hardest hit areas are auto sales, motor vehicle fuel sales, and the shift from take-out dining to groceries, as the latter is not taxable. It is also anticipated that the increases in the County Pool revenue due to increased online sales will continue into FY 2020-21.

Franchise Fees: Franchise Fees for waste disposal are expected to decline 4% in FY 2020-21 due to shut down of businesses and construction sites.

Transient Occupancy Tax (TOT: hotel tax): TOT is expected to decline 53% due to hotel occupancy rates decreasing. Travel has been significantly impacted by the shelter-in-place order, during which many hotels could only house essential workers, and it is expected travel will be slow to recover after the order is lifted.

Business License Fees: Business License fee revenue has been reduced 24% for FY 2020-21 in anticipation of reduced revenues by local businesses as a result of the extended closure and reopening restrictions.

Charges for Services, Licenses, and Permits: This category is down due to the closure of most City programs. Staff is estimating that the revenue for this category will fall by 29% in FY 2020-21.

Other Revenues: The Real Estate Transfer Tax is recorded in Other Revenues. For FY 2020-21, it is expected that the real estate market will remain soft, lowering projections by \$400,000. See Community Development section below for explanation of additional \$300,000 grant revenue also recorded in Other Revenue.

Part of the City's work on stabilizing the budget was identifying increases in revenues. Each new adopted revenue is presented below.

- Charge for City Attorneys' Time on Complicated Projects: The City Attorney's office does not currently charge development projects for their time working on projects. The proposal would be to establish an hourly charge for attorney support working on complicated large projects. **Impact:** Estimated increase of \$30,000 annually.
- Grants to Backfill Staff Costs: As a result of the continuing housing crisis, the State of California has provided local jurisdictions with the opportunity to obtain noncompetitive grant funds (through SB2 and the LEAP Program). With a total of \$810,000 available to the City, \$300,000 of this will be allocated for existing staff time to work on a number of policy-related matters, including code changes and pre-approved plan sets for Accessory Dwelling Units and the Housing Element update. The remainder of the grant funding will be allocated to technical and design specialists to assist staff in completing these significant policy and procedural work products. **Impact:** \$300,000 of one-time revenue to offset staff costs.
- Raise Multifamily Housing Inspection Fees: In 2017, the City enhanced the Multifamily Housing Inspection Program. At that time, it raised fees in an attempt to assure the program fully recovered its costs and was not subsidized by the General Fund (except for certain affordable housing projects). Unfortunately, the program has not achieved full cost recovery. The Department has re-organized functions within the program to decrease costs but must also raise fees to achieve full cost recovery, as shown in the table below:

Program	Base		Self-Cert	
	4 unit complex	100 unit complex	4 unit complex	100 unit complex
Existing fees per unit	\$127	\$100	\$83	\$34
Proposed fees per unit with 50% increase	\$191	\$150	\$125	\$51

Staff performed outreach with the California Apartment Owner’s Association and all participating properties in the program and brought the fee increase proposal before Council and they adopted it on June 23. **Impact:** \$150,000.

- **Parks and Recreation Fee Increases:** The City estimates \$1.6 million in revenue loss in Parks and Recreation next fiscal year, FY 2020-21. Staff evaluated all Parks & Recreation programs and facilities and identified fees to increase to match the market. By selectively increasing fees for programs we expect to be able to operate, revenues would be increased. Fee increases were recommended based on historical demand, cost to maintain amenity, and comparative price models in neighboring communities. Specific fee increases were recommended at the [June 23 Council Meeting](#). **Impact:** \$50,000 increase in revenue.

Non-General Fund Revenue

The State Department of Finance released revised projections for Gas Tax revenues in its May 2020 update and, based on the revised projections, no adjustments to FY 2020-21 Gas Tax revenues are deemed necessary at this time. Staff will bring back an update in the fall when more information is available.

FY 2020-21 Expenditure Reductions

Every department in the City will see reductions in their budget for FY 2020-21 to help mitigate the fiscal impact of the pandemic on the City’s revenues. The table below demonstrates the budget reductions by each department for a total of \$10.47 million savings. If not for these reductions, the City would be facing a projected 9% General Fund reserve by the end of FY 2020-21.

Table 4: FY 2020-21 Department Budget Stabilization Measures

Department Totals	Reduce Staffing	Reduce Contractual Obligations	Reduce Travel, Training, Supplies	Additional Revenue	Total Strategies	Percentage of Budget
City Attorney	98,000	19,000	7,000	30,000	154,000	11%
Community Development	1,061,000	200,000	35,000	450,000	1,746,000	17%
City Manager/City Council	547,000	96,000	32,000	-	676,000	20%
Finance	255,000	56,000	6,000	-	317,000	8%
Human Resources	152,000	19,000	30,000	-	201,000	9%
Information Technology	645,000	819,000	27,000	-	1,491,000	12%
Public Works	948,000	309,000	-	-	1,256,000	9%
Parks and Recreation	521,000	241,000	12,000	50,000	824,000	16%
Police	4,067,000	154,000	114,000	-	4,335,000	8%
Totals	8,294,000	1,913,000	263,000	530,000	11,000,000	10%

Table 5 below provides a summary of the various measures included in the Reduced Staffing column above. Table 6 is a position elimination summary.

Table 5: Summary of Staffing Changes

	FTE Reduced	Estimated Savings (in \$ millions)
Eliminate/Freeze Vacant Positions	25	3.5
Voluntary Separations	5	0.6
Layoffs*	6	1.2
Employee concessions (only those achieved)		2.2
Eliminate Work for Hourly Employees		0.2
Cost shifts		0.5
Total Personnel Reductions/Savings	36	8.2

*Following the City's MOUs and Personnel Policies, four of these positions were offered other employment with the City.

Table 6: Position Elimination Summary by Impacted Group

	Executive Team	Management	Confidential	Contract	Local 29	Teamsters	POA*	PMA*
Vacant		2	1	1	1	8	11	1
Voluntary Separations		1				4		
Layoffs	1				1	4		
Total	1	3	1	1	2	16	11	1

*The sworn positions are being frozen vacant and will be re-evaluated with the next budget cycle.

Overall, estimated operating savings amounts to \$10.47 million in FY 2020-21. As the City is a service organization, significant cost savings can only be achieved by reducing personnel costs. Expenditure reductions include decreasing the number of authorized positions by 36 including six positions being laid off. Through the various reductions,

including the downsizing of the organization, the City is able to achieve Council's reserve target of 20% at the end of FY 2020-21.

All unrepresented employees provided pay and benefit concessions. The two police unions, the Police Officers Association and the Police Managers Association, also provided pay and benefit concessions. The two remaining bargaining units, the Teamsters and Local 29, chose to provide no pay and benefit concessions. The concessions made by the unrepresented employees and the police unions total approximately \$2.2 million in savings for next fiscal year. The filled positions that were impacted by layoffs for the Teamsters and Local 29 bargaining groups could have been retained had the bargaining groups chosen to provide the requested concessions.

Reductions that Cross into Multiple City Departments: (\$2.6 million):

A number of the reductions reflect common categories across all departments and are summarized below:

- Un-represented furloughs, delay scheduled wage increases one year, and reductions to management benefits: \$1.344 million
- POA/PMA concessions: \$880,000
- Eliminate most part-time positions, including interns: \$232,500
- Reduce meetings, travel, and training budgets: \$251,000
- Reduce supplies citywide: \$13,000
- Contract Reductions: \$740,700

Department Specific Reductions: (\$6.5 million)

City Attorney's Office

- **Cut Non-Essential Spending:** Decreased the budget for outside attorneys. **Impact:** \$19,000 in annual savings. The Department will be less flexible and will have to rely on existing staff to a greater degree, which could create a slowdown in responsiveness.

City Manager/City Council Office

- **Restructure Staffing:** Eliminated the Assistant City Manager position and vacant Confidential Secretary. **Impact:** \$247,600 in annual savings. Because there will be less staff available to help with managing the front counter, the Wing A lobby will need to be closed to the public at lunch each day and at 4:00 each afternoon. There will also be less executive level leadership support to the City Manager and City Council, which will require all Department Heads to take on additional duties, Council prioritization of special projects, and a transition from Council Committees having assigned meeting times to meeting only as special

meetings. All priority needs can still be met but will take longer and non-mandated work and special projects may not be prioritized.

- **Cut Non-Essential Spending:**

Eliminate the print shop. The City operated a print shop with two full-time staff and part-time staff. This function has been eliminated. Copiers have become more capable of meeting many of the city's needs. Electronic mail and newsletters have replaced many printed sources of communication. The incumbent in the supervisor position is retiring at the end of June and the position will be eliminated. The part-time employee has already been eliminated. The graphic designer employee would be laid off. Concord is the last City in the County to continue to operate a comprehensive print shop. **Impact:** a minimum of \$100,000 savings in year one, growing once equipment leases are paid off. There would be no significant impact to City operations or the public. When necessary, print work would be contracted out. Simple graphic work will be absorbed, using existing software, by department employees, if complicated it would be outsourced to designers.

Suspend for One Year Funding for the Just 4 You Crew: Funding of the City's "Just 4 You Crew" employee recognition program is suspended for one year. The Just 4 You Crew creates opportunities for celebrating employees' contributions to the City. **Impact:** \$16,000 in savings. There would be minimal impact to the organization, as large gatherings of employees are currently not allowed due to COVID-19. There would be no impact to the community.

Reduce Miscellaneous Budgets: Reduced budgets for postage, workshop facilitation, and professional photos. **Impact:** \$69,350 in savings. There would be minimal impact to the community. Adequate funds remain to support priorities in these categories.

Correct the Budgeting of November 2020 Election Expenses: Moved \$75,000 which was incorrectly placed into the FY 2019-20 budget for the November elections into the FY 2020-21 budget. **Impact:** There is no impact.

Community Development

Restructure staffing:

- Building Division: Delayed recruitment of one vacant Building Inspector position for the first six months of FY 2020-21, and evaluate at that point if there is a consistent demand for filling this inspector position. In the meantime, should it be necessary to meet demand, the City will continue to rely on consulting inspectors to augment existing staff. **Impact:** \$66,400 in one-time savings.
- Planning: Eliminated a filled Assistant Planner position. Staff anticipates a slowdown of between 20-25% of planning applications in FY 2020-21, consequently there is not a need for this position. Additionally, COVID-19 has forced the City to move a number of our development review functions online, making the organization more efficient. **Impact:** \$127,000 in annual savings.

There will be minimal impact to the public from this change. However, if workloads pick up from current planning, long-range planning, or Council special projects, there could be a decrease in customer service and extended project turnaround times.

- **Economic Development:** Eliminated the vacant Redevelopment and Housing Manager position. Concurrently, reduced the Economic Development's marketing and contractor/marketing budget by \$60,000, leaving an annual allocation of \$100,000. Transferred the Division staff to work in partnership and as part of the Base Reuse Project Office, which will be renamed the Economic Development and Base Reuse Department. **Impact:** \$241,500 in annual savings. The Division will need to prioritize its workload. In the near term, the team will concentrate on economic recovery from the shelter-in-place order. In the long-term, the Department will continue to focus on the City's adopted Economic Development Strategy. The City will also continue its transition to relying more on social media than print media for its business attraction activities. There will be positive synergism to both functions when Economic Development becomes partnered with the City's base reuse efforts.

Finance

- **Restructure Staffing:** Absorbed CIP grant accounting within the Department. **Impact:** \$63,000 in annual savings. Finance will be able to take on fewer special projects and turnaround on inquiries and special requests will take longer.
- **Cut Non-Essential Spending:** Deferred Citywide Fee Study. In order to assure a valid nexus for all fees and grants, this study should be performed every 5 to 10 years. It was scheduled for next fiscal year. **Impact:** \$56,000 in savings. The project will need to be budgeted within the next two to five years.

Human Resources

- **Cut Non-Essential Spending:** Suspended elements of the employee wellness program for one fiscal year. **Impact:** \$19,000 in savings. Currently it is not feasible to host these programs due to COVID-19.

Parks & Recreation

- **Reorganize Staffing:** Eliminated a Program Manager position vacated through the City's voluntary separation program and reprioritize and redistribute work amongst remaining staff. **Impact:** \$200,000 in annual savings. Overall department capacity will be diminished. Programs will be prioritized to support the most vulnerable – seniors, youth and teens. In addition, during the first six-month transition phase, Commission on Aging activities will be suspended to allow the Program Manager reassigned to the Senior Center an opportunity to gain experience in the new role.
- **Reduce the General Fund Subsidy**

Camp Concord: When camp re-opens next summer, (it has been closed due to COVID-19 for this summer) shift Camp Concord, the city's 29-acre summer camp program located in South Lake Tahoe, to a group rental camping program only. Currently the City runs both family camp and group rentals at the site. The City's previous family camp program would be eliminated. **Impact**: \$174,000 in annual savings. Camp Concord will reduce its subsidy from the general fund by \$174,000. Staff will continue to work towards full cost recovery over a period of three years without sacrificing the valuable partnership developed with the non-profit Friends of Camp Concord (FOCC) and continuing to meet the goal of delivering nature-based camping experiences for youth, teens, adults, and seniors. Focusing on making Camp Concord available for group rentals leverages increased use of the summer resident camp by organizations interested in providing meaningful outdoor experiences; examples of previous groups utilizing the facility for their programs include Friends of Camp Concord (FOCC), youth camp(s) benefiting CARES after school programs, Junior Giants, Boys & Girls Clubs, and the Family Justice Center. Band Camps, family reunions, weddings, and Age 50 & Better retreats also round out a robust group camping program. FOCC recently committed over \$100,000 targeted for facility maintenance and upgrades that will benefit all future participants.

Concord Community Pool: Close Concord Community Pool (CCP) for 3 months each winter (November through January) when the facility experiences lowest use and higher costs to operate. **Impact**: \$67,000 in annual savings. The three winter months represent the lowest pool usage and the highest costs to operate; the aquatics pool manager would be assigned to support other Parks & Recreation programs during these three months. The pool averages 100 users a day in the winter. While this is a very difficult cost saving measure with a significant impact to the year-round operations of the Terrapins Swim Team, during previous periods of winter maintenance including the deck and re-plastering projects, the Terrapins have been able to successfully utilize other area pool facilities. A limited three-month closure is likely to have less impact on the swim team and overall community than a longer timeframe.

Police Department

- **Restructure Department staffing:**

Sworn: Froze, as vacant, 11 currently vacant Police Officer positions, and starting in January, one vacant Police Captain position. The department has been operating with approximately 10 vacant officer positions for the last 18-months and previously operated for many years with two Captains. **Impact**: \$1,917,000 in annual savings. As the officer vacancies already exist, sworn duties and responsibilities have been reassigned to maintain essential and priority police services. Overtime pay, while monitored and controlled, will continue to be relied on as necessary to provide essential and priority police services. The Chief is developing a plan for operating with two Captains that

will be in place prior to the retirement of the third Captain. The City will re-evaluate these frozen positions next year.

Domestic Violence Victim Advocate: Eliminated the City's vacant Domestic Violence Victim Advocate position, which is a contract position.

Impact: \$90,300 in annual savings. The Family Justice Center (FJC) did not exist when this position was created in Concord. Now that it does, the Department can rely on the FJC to fill this community need.

Code Enforcement: Reduced Code Enforcement from five code officer positions and one administrative clerk, to three code officer positions and no clerk. There will remain a recycling theft prevention position whose costs are carried entirely by Mt. Diablo Resource Recovery. This downsizing requires eliminating two vacant code enforcement officer positions and one administrative clerk III position. **Impact:** \$326,900 in annual savings. This is a return to the traditional number of Code Enforcement Officers for the City. It will result in enhanced use of notices as the first effort to gain compliance. The City has a very high rate (over 80%) of voluntary compliance through notification. Additionally, lower priority code complaints may take longer to resolve. The loss of the clerk is not anticipated to have impacts on the public but will have minor impacts on the staff in the Division.

Community Service Desk: Eliminated Community Service Desk open hours through the elimination of one filled Community Service Officer (CSO) position. There will still be one person assigned to the front desk during working hours; however, the public will be encouraged to file reports online or over the phone. Currently the front desk takes, on average, 30 reports a month. Many of these could be done on-line even at the lobby computer or over the phone. For those that require an officer's involvement, a patrol officer would meet with the individual at the lobby. Injured Officers on modified duty, when available and as restrictions allow, will be available for phone reports. **Impact:** \$93,300 in annual savings. No significant impact on the public.

Administrative Support: Eliminated one vacant Administrative Secretary position and one vacated through the City's voluntary employee separation program. **Impact:** \$232,000 in annual savings. This will affect how personnel paperwork is processed in the Department. This is anticipated to create efficiencies.

Field CSO: Eliminated two filled CSO positions. The field CSOs take low-level reports in the field when available. **Impact:** \$186,500 in annual savings. This function will now transfer to patrol officers or to a phone response. This will not impact response to priority 1 calls; however, low level calls may require longer waits for an officer response.

Jail: Reduce hours of jail operation by eliminating two vacant CSO positions. Three filled CSO positions assigned to the jail remain. Currently the jail operates 24 hours a day; the elimination of these two positions will limit the

jail hours to 12 hours a day, to be scheduled when most advantageous for patrol. Note during the recession of 2010 the City minimized the hours the jail was staffed with no significant impacts. If an extreme need arises, sworn officers can be assigned to the jail. **Impact:** \$186,500 in annual savings. When the jail is unstaffed by CSOs, Patrol Officers will absorb duties such as prisoner bookings, prisoner custody, and transports to County jail. This will take sworn officers off-line during their shifts more often than currently and can impact response times.

Quartermaster: Eliminated a vacant CSO Quartermaster position. The quartermaster is in charge of ordering supplies, from office supplies to emergency equipment and ordering all state mandated paperwork. In many police departments, this is an additional assigned duty to a Sergeant as it will be in Concord as part of this reorganization. **Impact:** \$93,300 in annual savings. This is anticipated to result in a minimal impact within the Department and no impact to the community.

- **Reduce Non-Essential Spending:** Fund the FJC at \$100,000 and fund the Leaven Program next year at the same level it was funded this year, \$24,000. The FJC has expanded significantly since the City helped establish it in Concord and now incorporates East County, Central County, and West County. All the other cities contribute \$7,500 for the FJC. The FJC has one other City, Richmond, supporting it at the same level as Concord with General Fund money. **Impact:** \$39,000 in annual savings. The impact to the FJC is minimal, as Council made a strong statement to retain their funding at \$100,000, which results in only a \$15,000 a year decrease. Council also directed staff to approach the FJC about planning now for decreasing funding from the City in future years. The Leaven program only had \$24,000 of the City's allocated funding distributed to them this fiscal year. Consequently, reducing the City's budget allocation to \$24,000 for the upcoming fiscal year is not anticipated to have an impact.

Public Works

Cut Non-Essential Spending

- Suspend Operations of Meadow Homes Spray Park for this Summer: Eliminated operation of the spray park during the 2020 calendar year. These facilities will not operate in calendar year 2020. The spray park is anticipated to operate in the summer of 2021. **Impact:** \$35,000 in savings. Use of the spray park is currently disallowed due to the shelter-in-place restrictions from COVID-19.
- Volunteer Programs and Special Events: Reduced staff support for volunteer programs and special events, unless full cost recovery from outside organization. Recognize one-time savings from Music and Market and Tuesday Blues being cancelled this calendar year. **Impact:** \$49,800 in one-time; \$10,200 in annual savings. Public Works supports numerous volunteer activities throughout the year. The events occur mostly outside of regular business hours. All City events will be eliminated with the exception of an annual Earth Day/Arbor Day event and

Citywide clean up, and those events which can be conducted during normal business hours, without use of overtime and other resources. Public Works support to Music and Market and Tuesday Blues would be eliminated this calendar year but would return next season.

- Reduce Vehicles and Equipment within the Department: Eliminated equipment no longer needed within the Parks Maintenance Division. This is occurring as a result of operational efficiencies. **Impact:** \$93,500 in annual savings.
- Transfer Allowed Costs from the General Fund to the Downtown Landscape Maintenance District Fund: The improvements within the Downtown Landscape Maintenance District provide “general benefit” to properties located outside the District’s boundaries. The general benefit is calculated by a professional engineer and paid for by the City’s general fund on an annual basis. Currently, the City contributes \$185,000 more than the required contribution level from the General Fund. Beginning in FY 2020-21, the City will only provide the required General Fund contribution. Additionally, the City previously contributed to the Downtown District by paying certain electrical costs and funding an employee assigned full time to the district; the FTE and electrical costs are now being funded by the District. **Impact:** \$168,000 in annual savings. These changes to the Downtown District result in greater expenses than revenues within the District; however, the District can draw down its very healthy fund balance for the next three years without impact. At which point, the City may have to approach property owners in the district for support to raise fees or the City could increase its General Fund contribution. This will be reviewed every budget cycle going forward and adjusted when necessary, likely Fiscal Year 2022-23.

Restructure Staffing

- Maintenance Division: Eliminated a vacant Maintenance Worker 1 position. **Impact:** \$107,000 in annual savings. There will be no impact to the community.
- Infrastructure Maintenance: Adjusted the budget to recognize an already eliminated vacant Program Manager position in the Fleet Division. As part of an internal restructuring in fiscal year 2019-20, the Program Manager position was eliminated and the fleet management function was combined with other administrative duties under an Administrative Services Manager. **Impact:** \$131,800 in annual savings. This has resulted in operational efficiencies.
- Parks Maintenance Division: Eliminated three vacant positions and restructured work assignments. The following positions will be vacated through the City’s voluntary separation program: Environmental Maintenance Technician; Senior Maintenance Team Leader; and Administrative Clerk II. Work assigned to these positions will be distributed among remaining staff within job classifications. The weed spraying program will be conducted by a Landscape Gardener. The work performed by the Senior Maintenance Team Leader is quality control and will be reassigned. The Administrative Clerk II functions will be absorbed by remaining clerical staff and through operational efficiencies. **Impact:** \$331,900 in annual

savings. The reduction in staff will result in minimal impacts to the public and is expected to create organizational efficiencies.

B. Adjustments approved for FY 2020-21 non-General Fund accounts are below.

Information Technology

IT Operating Fund (634): \$996,600 in savings

IT Replacement Fund (636): \$497,000 in savings

- **Cut Non-Essential Spending:**

Reduce Purchasing: Reduced purchasing of new hard drives, new load balancers and server blades, Wi-Fi upgrades and infrastructure cabling for Fiscal Year 2020-21. **Impact:** \$194,000 in savings. No significant impact to the community or the City organization by delaying these purchases to future years.

Delay hardware replacements: Delayed a portion of the City's hardware replacements scheduled for Fiscal Year 2020-21. **Impact:** \$338,000 in savings. No significant impact to the City organization or community.

Decommission the Rocklin Disaster Recovery Site: The effort to effectively stand up the Rocklin Disaster Recovery site has been hindered by technological limitations in our current enterprise wide finance and human resources system. Since new cloud-based platforms have become efficient and cost effective for backup and disaster recovery applications, the City will be leveraging these technologies to accomplish the City's disaster recovery requirements. **Impact:** \$212,000 in savings. No impacts to the community or City organization.

- **Restructure Department Staffing:** Rely on two IT Manager provisional appointments until April 2021 creating salary savings and one part-time GIS Position. **Impact:** \$430,000 in savings in Fiscal Year 2020-21. Reductions will limit the amount of projects the Customer Service Division and the Infrastructure Division will be able to accomplish during Fiscal Year 2020-21. The IT Department will schedule projects such as the Infrastructure Refresh and Enterprise Resource Planning System replacement to align the majority of work with when full staffing is available.

C. Adjustments approved for FY 2020-21 non-General Fund accounts related to cost shifts throughout the City are below.

- Downtown Landscape Maintenance District (210): \$168,398 Appropriation
- Sewer Operating Fund (710): \$85,000 Appropriation
- Building Maintenance Fund (630): \$11,009 in savings
- Golf Course Fund (700): \$33,978 Appropriation

FTE Count

Due to the elimination of certain vacant positions and layoffs noted above, the Full-Time Equivalent (FTE) count for each department will change as noted in the table below:

Table 7: Funded FTE Changes by Department

Department	Current FTE	Proposed FTE	Difference
City Attorney	4	4	0
City Manager/Council	16	12	4
Community Development	51	48	3
EDBR*	5	5	0
Finance	19	19	0
Human Resources	8	8	0
Information Technology	13	13	0
Parks and Recreation	13	12	1
Police**	209	185	24
Public Works	80	76	4
Total	418	382	36

* The Economic Development Division of Community and Economic Development Department (CED) has been moved under the Concord Community Reuse Project to form one department titled Economic Development and Base Reuse (EDBR). CED is now titled Community Development to reflect the change.

** The Police Department is freezing 12 vacant sworn positions that are included in the totals.

Part III: LONG-RANGE FORECAST UPDATE

Staff presented the City's Long-Range financial forecast to City Council at the Mid-Year Update on February 25, 2020. Due to the shelter-in-place order and the projections of decreased revenues received, a revised forecast was presented to Council on April 14, 2020. The April model was updated with the new projected revenues and expenditures to include changes already implemented by the City Manager, including temporarily pulling back funding from budgeted Measure Q capital projects including replacing aged playground equipment, park system needs and street median replacements. The February model assumed a recession starting in FY 2023, which is no longer a valid assumption. The April model assumed a recession starting immediately. Since the meeting on April 14, Council has approved \$530,000 in new revenues and \$10.4 million in budget reductions that has changed the forecast. A revised forecast is presented below.

It is important to note that the 20-year forecast does not incorporate the impact of CalPERS investment returns for the fiscal year ending June 30, 2020, as that is not yet known. The market volatility from the financial crisis due to COVID-19 has impacted investment returns significantly, and CalPERS investment returns as of the end of April

2020 were approximately 0%. As the discount rate, or expected rate of return, is 7%, any returns that fall short of this target will create another layer of unfunded pension liability. This is a very likely scenario by the end of June 2020. If investment returns remain at 0%, pension contributions will be increased by an additional \$3 million each year, which will begin phasing in during FY 2022-23.

Charts 1-3 below reflect different fiscal scenarios and the resulting outcome on General Fund reserves. The blue bars in the charts below represent the unassigned, or available, General Fund Reserve balance by year. The solid red line represents the City's goal of maintaining 30% of General Fund expenditures and the dotted red line represents the City's minimum acceptable Fund Balance level of 17% of General Fund Expenditures.

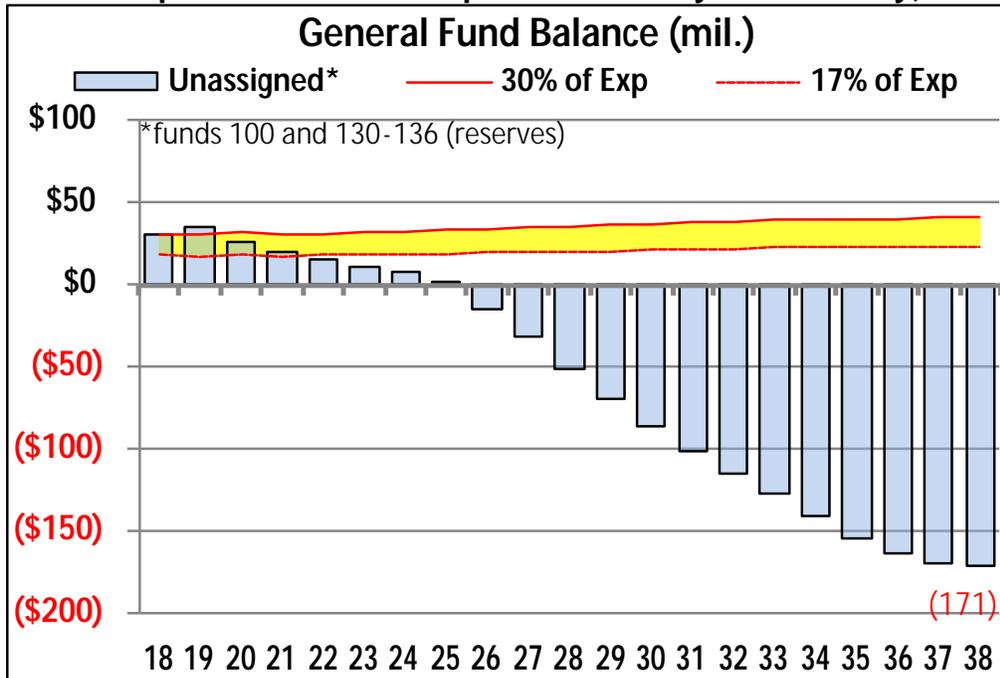
Scenario 1: Updated Base Assumption with a 10-Year Economic Recovery Period, Measure Q Expires

The forecast uses the following assumptions:

- No additional funding of maintenance needs (the City has identified the need for \$20M per fiscal year that is not projected to be spent in this model)
- Measure Q Expires March 2025
- Wage increases 2% annually (FY 2022 and after)
- No additional full time staff are added by the City
- Staff reductions of 37 FTE as per this report
- Incorporates \$5 million of concessions from labor groups
- Recession starting immediately
- Revenue growth assumptions: all assumed at 2% growth
- Revenue and Expenditure adjustments as noted above in Parts I and II

In this scenario, the chart shows General Fund reserves drop below the minimum 17% reserve requirement by FY 2021-22 and without stability measures, the City runs out of reserve in FY 2025-26. This is not a plausible situation, as the City has to adopt a balanced budget. The chart demonstrates the immediacy and magnitude of the fiscal challenges facing the City.

Chart 1: Updated Base Assumption with a 10-year Recovery, Measure Q Expires



Staff has also modeled an alternative recovery scenario which assumes a relatively rapid recovery in revenues. It took Concord eight years for sales tax revenues to recover to pre-recession levels following the Great Recession. It is important to note that without aid from the Federal Government, the City is likely to experience a slower recovery.

Scenario 2: New Base Assumption with a 5-Year Economic Recovery Period and Measure Q Expires

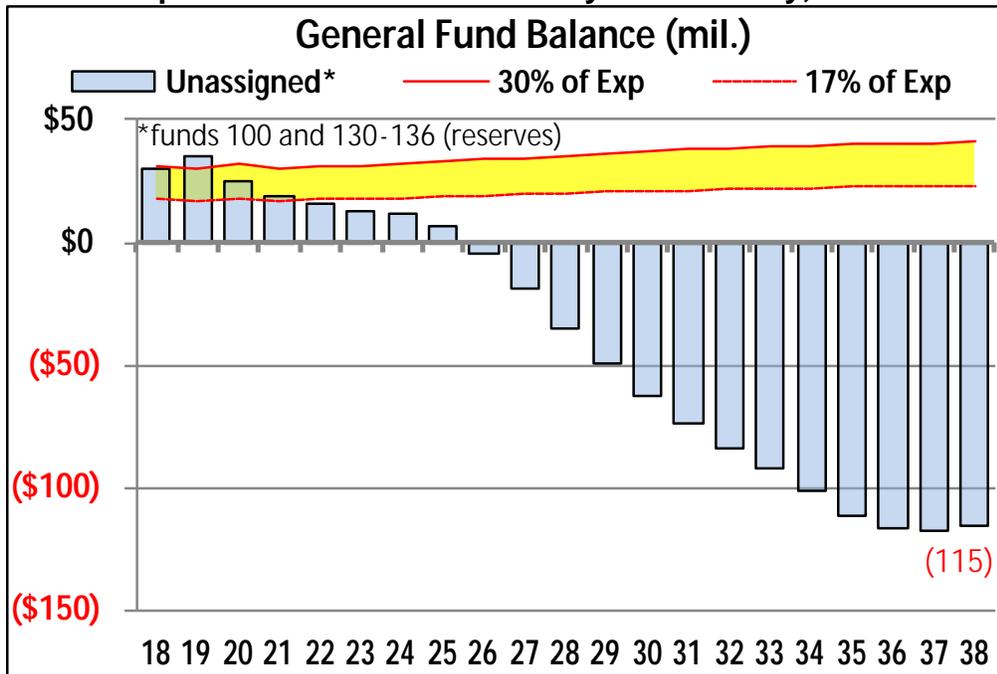
The forecast uses the following assumptions:

- No additional funding of maintenance needs (the City has identified the need for \$20M per fiscal year that is not projected to be spent in this model)
- Measure Q Expires March 2025
- Wage increases 2% annually (FY 2022 and after)
- No additional full time staff are added by the City
- Staff reductions of 37 FTE as per this report
- Incorporates \$5 million of concessions from labor groups
- Recession starting immediately
- Revenue growth assumptions: Sales Tax 4% for five years and 2% thereafter
 - All other revenues assumed at 2%

- Revenue and Expenditure adjustments as noted above in Parts I and II

Chart 2 shows that even if the City’s sales tax revenues recover more rapidly and maintenance needs continue to be deferred, the General Fund reserves drop below the minimum 17% reserve requirement by FY 2021-22 and the City runs out of reserves in FY 2025-26.

Chart 2: Updated Base Model with a 5-year Recovery, Measure Q Expires



Charts 1 and 2 demonstrate that the City’s regular, non-Measure Q revenues are not sufficient to cover operating expenses, even with the significant recommended reductions, and that additional budget stability measures will need to be implemented in order to maintain the minimum level of reserves of 17% of expenditures.

Staff has also modeled a 10-year recovery scenario assuming a ballot measure in November 2020.

Scenario 3: 10-Year Economic Recovery Period, Measure Q Renews at a 1 cent rate (\$15 million of the revenue is dedicated to the City’s infrastructure maintenance needs)

The forecast uses the following assumptions:

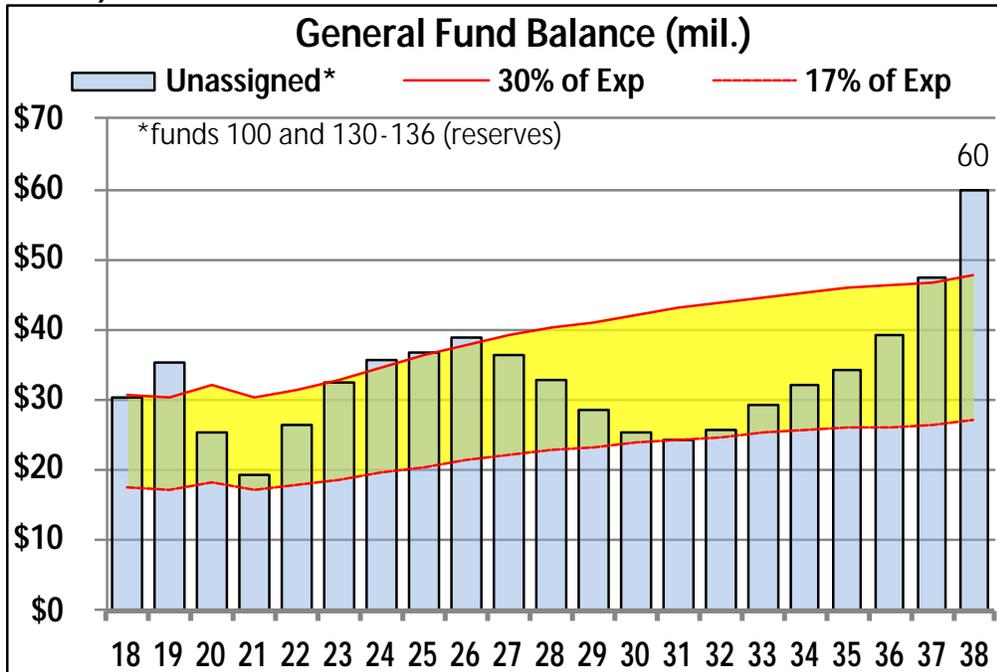
- \$15M funding of maintenance needs (the City has identified the need for \$20M per fiscal year)

- Measure Q renews in November 2020 at a one cent rate until ended by voters³
- Wage increases 2% annually FY 2022 and after
- No additional full time staff are added by the City
- Staff reductions of 37 FTE as per this report
- Incorporates \$5 million of concessions from labor groups
- Recession starting immediately
- Revenue growth assumptions: Sales Tax 2%
 - All other revenues assumed at 2%
- Revenue and Expenditure adjustments as noted above in Parts I and II

In this scenario, the chart shows General Fund reserves remain above the minimum 17% reserve requirement and total reserves attain the City's 30% reserve goal by FY 2036-37. Chart 3 shows that significant progress can be made to fund needed road and other maintenance needs. In this scenario, road conditions would continue to deteriorate since the funding would still be below the level needed to maintain current conditions; therefore, additional budget stability measures would be needed in the future.

³ Only possible if City Council, on a supermajority vote, places Measure Q on the ballot and it is approved by voters.

Chart 3: 10-Year Economic Recovery Period, Measure Q Renewes at a 1 cent rate (\$15 million of the revenue is dedicated to the City’s infrastructure maintenance needs)



Summary: As these charts demonstrate, the City faces significant funding challenges. Without additional revenues within the next two years, essential services will need to be further reduced in order to maintain a minimum 17% reserve and no general fund money would be available for roadway maintenance.

Financial Impact

For FY 2019-20, revenue reductions total \$6.2 million and expenditure reductions are \$2.2 million for the City’s General Fund.

For FY 2020-21, revenue reductions total \$13 million and expenditure reductions are \$9 million for the City’s General Fund.

The City’s adopted biennial budget was already using \$6 million of reserves over the two fiscal years. The updated budget proposals assume the use \$17.4 million over both Fiscal Years.

The City Council adopted a reserve policy the states the minimum level of reserves for the General Fund be a minimum 17% of expenditures with a goal of 30%.

Staff projects the City will end FY 2019-20 with 25% reserves and FY2020-21 will end with approximately 20% reserves if the recommended adjustments are approved; this is compliant with the Council’s fiscally prudent reserve policy.

Table 8: FYs 2019-20 and 2020-21 Projected Fund Balance (in millions)

	Projected FY 2019-20	Projected FY 2020-21
Beginning Fund Balance	\$ 36.6	\$ 27.1
Total General Fund Regular Revenues	90.6	85.4
Total Support from MQ	7.5	9.4
Total Expenditures	(109.3)	(101.0)
Net Available (Use of Reserves)	(11.2)	(6.2)
Pause Measure Q CIPs/Supplement Reserves	1.2	
IT Projects Suspended/Transfer to GF Reserves	0.5	-
Ending Fund Balance	\$ 27.1	\$ 20.9
General Fund Reserves	24.8%	20.6%

Approved non-General Fund adjustments for FY 2020-21

- Downtown Landscape Maintenance District (210): \$168,398 Appropriation
- Sewer Operating Fund (710): \$85,000 Appropriation
- Building Maintenance Fund (630): \$11,009 in savings
- Golf Course Fund (700): \$33,978 Appropriation

PART IV: CONCLUSION

The adjusted budget is balanced, but relies on the use of one-time resources (reserves) to be so. The City continues to minimize cost increases within its control to limit impacts on the structural budget gap. However, the City continues to face significant fiscal challenges, including unfunded maintenance needs and a significant increase in state-mandated CalPERS pension costs over the next twenty years.

General Fund reserves of \$11.2 million in FY 2019-20 and \$6.2 million in FY 2020-21 are used to close the gap between revenues and expenditures, respectively.

Given the magnitude and timing of the budget deficit forecast, it is vital for strategies to be prioritized and implemented over the next two years to preserve essential services the community expects and deserves while maintaining fiscal solvency.

Respectfully submitted,

Memorandum
June 23, 2020

A handwritten signature in black ink that reads "Valerie Barone". The signature is written in a cursive style with a large, prominent initial 'V'.

Valerie J. Barone
City Manager