



CITY OF COMMERCE AGENDA REPORT

TO: Honorable City Council

Item No. _____

FROM: City Manager

SUBJECT: A Resolution Adopting the Annual Operating Budget for Fiscal Year 2020-2021

MEETING DATE: October 6, 2020

RECOMMENDATION:

Approve and adopt the proposed Resolution adopting the annual operating budget for the City of Commerce for Fiscal Year 2020-2021.

BACKGROUND:

In order to deter and contain the rapid spread of COVID-19, and due to the need to protect the public's health and safety, Executive Order N-33-20, issued by the Governor of California on March 19, 2020, and the Safer at Home Order for Control of COVID-19, issued and revised by the County of Los Angeles Department of Public Health on March 21, 2020 (herein, collectively, "Orders") - which amongst the issuance of various orders and directives - ordered businesses to close immediately unless a business fell under the categories of an Essential Business, a provider of Essential Services, part of the Essential Business, Essential Infrastructure, and/or Critical Infrastructure Sector. These Orders are applicable to all businesses located in the City of Commerce and within its boundaries. The City of Commerce adopted the Orders pursuant to Resolution No. 20-23, which also declared a local state of emergency within our jurisdiction.

Consistent with said Orders and Resolution No. 20-23, multiple businesses were ordered to close and cease operations, including but not limited to, the two largest economic generators in the City, the Citadel and the Commerce Casino. The Casino has essentially been closed since March 14, 2020, resulting in a revenue loss of approximately \$2.2 million per month. While it has received tentative approval to reopen this month for outdoor operations, those operations would likely consist of approximately 20% of their normal business and are also currently subject to very strict protocols, which could result in their immediate closure once again based on a single infraction.

The City of Commerce immediately began to experience serious and detrimental financial and budgetary impacts because of the COVID-19 pandemic and the resulting closure of the City's businesses, including the two main sources of the City's General Fund revenue as previously stated. Accordingly, the City passed a resolution on March 25, 2020 declaring an economic emergency related to the COVID-19 pandemic. As a result, the City began to assess all potential cost-saving measures on a continuous basis in an effort to address the imminent financial emergency, while also making law enforcement, fire protection, public safety, and public infrastructure a priority in order to maintain same at the highest service levels to protect the City's residents and neighborhoods, especially during these difficult times.

As part of the City's cost-saving measures, the City Council passed resolutions on April 7, 2020 and May 19, 2020, approving letters of agreement between the City of Commerce and the City of Commerce Employees Association (CCEA), representing full-time and part-time employees units related to the impact of the COVID-19 pandemic on the City's economic condition and loss of revenue, and making corresponding and necessary work-force and salary adjustments.

Due to the on-going financial uncertainty and lack of concrete fiscal data as a result of the fiscal instability caused by the COVID-19 pandemic, in lieu of adopting an operating budget at the end of this preceding fiscal year, the City Council instead passed a resolution authorizing the continuing of operations into Fiscal Year 2020-2021 at Fiscal Year 2019-2020 appropriation levels.

The City continued to experience serious and detrimental financial and budgetary impacts because of the COVID-19 pandemic and the resulting closure of the City's businesses, including the two main sources of the City's General Fund revenue. The decline in revenue forced the City to use an estimated \$12.5 million in reserves by the end of last fiscal year, the highest amount in the City's history.

Consequently, on July 21, 2020, pursuant to Section 2(b) of Article XIIC of the California's Constitution, the City Council unanimously passed a resolution formally declaring a fiscal emergency, and as a result the City Council made findings that it was necessary and appropriate to submit a local tax measure to the City's voters at a Special Election that will take place on November 3, 2020.

Most recently, the City Council passed a resolution on August 4, 2020 approving a Letter of Agreement between the City of Commerce and City of Commerce Employees Association, making further and additional adjustments to the City's labor force and their compensation packets, due to the ongoing and severe impact of the COVID-19 pandemic on the City's ability to provide services, its economic condition and severe, sudden and sustained loss of critical revenues.

ANALYSIS:

The coronavirus pandemic has wreaked havoc on the City of Commerce budgeting process. The City of Commerce was, and continues to experience serious and detrimental financial and budgetary impacts because of the COVID-19 pandemic, and as a result, has incurred significant and unanticipated expenses in responding to COVID-19 crisis without the ability to identify any new sources of revenue.

The closure of the Commerce Casino, the City General Fund's major revenue source, the shutting down of a majority of the City's sales tax revenue generators, along with a downturn in most economic activity as a result of businesses' closure as discussed hereinabove, the City of Commerce was on course to lose approximately **\$4 million** per month or a General Fund shortfall of approximately of **\$12 million** for the fiscal year of 2019-2020.

Given these circumstances, the completion and presentation to the City Council of the Fiscal Year 2020-2021 Budget has been delayed, and in order to prepare a reasonably accurate projection of the anticipated revenues and expenditures for said year, additional time was necessary.

Over the last several months, the City assessed all potential cost-saving measures on a continuous basis in an effort to address the imminent financial emergency and ensure that the City is fiscally viable in order to honor its current and future commitment to the community and its employees.

In response, over the last several months, the City has assessed all potential cost-saving/mitigating measures on a continuous basis in an effort to address the imminent financial emergency and ensure that the City is fiscally viable in order to honor its current and future commitment to the community and its employees. Staff has projected that the shortfall for this fiscal year (2020-2021) could be north of **\$15 million**, with the following mitigating measures being recommended to address the aforementioned shortfall:

➤ Service Level / Program Modifications	8,158,758*
➤ Implementation of a 1/4 Cent TUT Sales Tax	4,000,000**
➤ Redevelopment Loan Repayment	3,000,000
➤ Full-Time Employee PERS Pick up	750,000
➤ PERS Stabilization Fund	500,000
➤ Residential Refuse Pick up	400,000
➤ Suspension -- Tuition Reimbursement	250,000
➤ Suspension -- Citywide Travel	200,000

***A breakdown of the modifications are delineated in Exhibit A**

****Projected Amount is premised on one-half year of recognized revenue**

With all that said, and premised on the implementation of all the aforementioned measures, the City is looking at a balanced budget for FY 2020-21.

The City Council has worked to balance the available revenues with the needs of the community while taking into consideration various fiscal challenges. The most critical current challenge is to get the Casino operational sooner than later, albeit, it may not be at the level experienced pre-COVID-19.

Mindful of the organizational and financial impact that a recurring item will have on the base line budget going forward, City staff is recommending that the City Council make a concerted effort to defer and address operational areas of concern to sometime in the early stages of calendar year 2021. This deferment will afford staff time to analyze the fiscal situation over the first 6 months of this fiscal year.

Other funds that the City Council needs to take action on are as follows:

➤ Fund 22 – COPS Grant	\$ 100,000
➤ Fund 25 – Proposition A	\$1,300,000
➤ Fund 26 – State Gas Tax	\$ 350,000
➤ Fund 29 – CDBG Fund	\$ 175,916
➤ Fund 42 – Community Ctr. Debt Svc	\$ 815,000
➤ Fund 50 – Water Utility Fund	\$1,000,000
➤ Fund 57 – Transportation	\$6,036,883
➤ Fund 63 – Information Technology	\$ 65,000
➤ Fund XX – Safe Clean Water Program	\$ 868,637

In addition to the aforementioned, staff will return to the City Council with recommendations regarding Measure AA funds.

The City Council has discussed and taken the appropriate action on the City Manager's proposed operating budget for fiscal year 2019-20.

A PowerPoint presentation recapping the process and all City Council actions will be presented.

However daunting and painful this process was, the City Council, City staff, and the Association worked collaboratively to achieve an overall balanced general City operating budget for Fiscal Year 2020-2021.

ALTERNATIVES:

1. Approve staff recommendation

2. Provide staff with further direction

FISCAL IMPACT:

The FY 2020-21 budget includes proposed revenue of **\$47,512,560** and expenditures of **\$54,989,937** leaving a projected deficit of **\$7,477,377**. With the projected measures in place, the General Fund budget is forecast to be balanced. Being mindful that this process is more fluid than in past years, staff may return with additional modification measures in the future.

RELATIONSHIP TO STRATEGIC GOALS:

This report before the Council is not applicable to any specific 2016 Strategic Plan goal; however, it is related to the following: Fiscal Sustainability – *The City of Commerce will implement innovative and responsible policies and business practices to effectively manage its fiscal and human resources. The City will maintain a stable financial environment that is transparent and supports an outstanding quality of life for our community. City business practices will be efficient, business friendly and ensure exceptional customer service.*

Recommended by: Vilko Domic, Assistant City Manager

Approved as to form: Noel Tapia, City Attorney

Respectfully submitted: Edgar P. Cisneros, City Manager

ATTACHMENT:

1. Resolution
2. Exhibit A