



*City of South Gate*  
*Budget Subcommittee*  
*July 9, 2020*

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# STAFF REPORT

## AGENDA ITEM NO. 1

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**TO:** Budget Subcommittee

**FROM:** Jackie Acosta, Director of Administrative Services 

**SUBJECT:** FY 2020-21 Maintenance of Effort Budget

**PURPOSE:** For the Subcommittee Members and staff to further discuss the FY 2020-21 Maintenance of Effort budget and to allow input on the City's FY 2020-21 budget from the public.

**RECOMMENDED ACTION:** Review and discuss the FY 2020-21 Maintenance of Effort Budget.

**BACKGROUND:** On June 23, 2020, the City Council held a Public Hearing and heard departmental presentations on the proposed FY 2020-21 Maintenance of Effort (MOE) Budget, culminating with the City Council's adoption of the budget. While the City Council did adopt the FY 2020-21 MOE budget, they also requested that another City Council meeting be convened on Tuesday, July 21<sup>st</sup>, to further discuss the City's MOE budget. For the benefit of the public reading this report or participating in this Budget Subcommittee (BSC) meeting, the Maintenance of Effort budget adopted by the City Council on June 23, 2020, is a repeat of the FY 2019-20 budget, meaning that no new positions or programs have been added to the budget and overall there is only a net \$900,000 increase in costs, which is due to previously-negotiated salary step increases, contractually-required CalPERS retirement and health insurance cost increases and a few previously-negotiated contracted services increases.

The MOE general fund budget adopted projects operating and one-time revenues of \$47,971,561 and operating and one-time expenditures of \$54,939,028, leaving a shortfall of \$6,967,467. This shortfall will be covered with the City's budget stabilization funds, emergency reserves or the unassigned general fund balance, or a combination of these. The City currently has total available balances and reserves of over \$40M, sufficient to see the City through this upcoming fiscal year without the need for dramatic reductions to City services or staff.

As discussed on June 23<sup>rd</sup>, the COVID-19 pandemic is negatively impacting some of the City's revenues and the full brunt of those impacts have not been felt or quantified. That fact has hampered the budget process as it is difficult to assess the true impact that the COVID-19 pandemic will

ultimately have on the City's FY 2019-20 and FY 2020-21 revenues. Staff will be taking the necessary time over the next 3 to 4 months to assess the actual negative impact on our City revenues as a result of the COVID-19 pandemic and re-examine our budget projections for FY 2020-21 to determine if any adjustments need to be made to those projections.

**REVENUES**

The City's FY 2020-21 general fund budget includes projected revenues of \$47,971,561. That amount is \$3.6 million less than the adopted revenue budget from FY 2019-20. That reduction is primarily due to projections that sales taxes, which normally account for 44% of all general fund revenues, will be \$3.8 million less than last year and business license taxes will be \$250,000 less than last year, while being offset slightly by a projected increase in property tax revenue of \$450,000.

While City revenues are being greatly impacted in the short-term by the COVID-19 pandemic, the City is still struggling with a longer-term structural budget deficit. In both of the prior two fiscal years, the adopted general fund budgets estimated the need to use some reserves to balance those budgets. City general fund revenues have just not been enough, and continue to not be enough, to cover projected annual operating expenditures. That is a longer-term issue that needs to be addressed. One way to address the structural budget deficit is to look at the possibility of new and/or increased general fund revenues. That, however, is a discussion for another day, but staff does have some ideas about possible new and/or increased revenues and those can possibly be the subject of a future BSC meeting.

**EXPENDITURES**

The City's FY 2020-21 general fund budget projects annual expenditures to be \$54,939,028, which is \$6,967,467 more than our projected general fund revenues. As stated above, this is only \$965,070 more than the FY 2019-20 adopted budget. While it is easy for people to say that the City should just cut its budget, it is not that simple. First of all, 74%, or \$40.6M, of the total general fund budget is for salary & benefit costs for our 316 full-time and 120+ part-time staff (See chart below). Without City staff, services to our residents and businesses could not be provided.

<b>Expenditure Category</b>	<b>FY 2020-21 Budget</b>	<b>% of Budget</b>
Salary & Benefits	\$40,569,283	74%
Supplies & Services	\$12,106,525	22%
Debt Service	\$2,263,220	4%
<b>Total</b>	<b>\$54,939,028</b>	<b>100%</b>

Further, with respect to salary & benefit costs, all of these costs are related to contractually negotiated items. To change the salary & benefits of City staff, management would need to “meet and confer” with the City's various bargaining units and negotiate new, reduced contracts. While the meet and confer process will take place soon because the current labor contracts have expired as of June 30, 2020, any proposed reductions to salary & benefits costs could only be achieved as the result of long and protracted labor negotiations. Another consideration when it comes to salary & benefit costs is the effect that salary & benefit reductions would have on the City as a whole. In order to provide top-notch, excellent City services, the City has to be able to attract and retain experienced, high quality employees. Currently, the City's salary & benefit structure is not at the top of the range when it comes to comparisons with other cities. Therefore, reductions to the current pay structure would only serve to make it more difficult to attract and retain quality staff. Again, these are longer-term issues that the City Council will need to address and weigh the pros and cons of making changes to the City's current



salary & benefits structure. But, for now, based on the FY 2020-21 MOE budget just adopted, it is staff's recommendation to use fund balance and reserves to cover the FY 2020-21 shortfall. After the final impact of the COVID-19 pandemic on our revenues is determined and more up-to-date revenue projections are made, staff can reassess our financial condition for the current year and the next few years and then make recommendations to the City Council on how to move forward for the long-term.

With respect to the 22%, or 12M, of the budget that is allocated to Supplies & Services, it may be assumed by some that all of these costs are discretionary, while that is not, in fact, the case. For example, almost \$2M of those costs are for costs related to the City's liability, property and workers' comp insurance programs, \$1M is needed to maintain the City's fleet of vehicles and machinery, \$900K is for legal services, \$850K is to support our information technology systems, \$850K is for animal control services and \$750K is for utility costs. That is another \$6,350,000 that are not discretionary costs which can be cut without significant ramifications.

The general fund budget also contains \$2M of debt service costs related to the Pension Obligation Bonds issued in 2005. Those are legally-binding costs that the City must pay annually.

### **SUMMARY**

This information is not being presented to say that there is no room for additional cost reductions, it is merely being presented to educate the public on the types of costs included in the City's general fund budget and the constraints related to reducing or eliminating those costs. There has been quite a bit of discussion in the community recently around the perceived lack of services for youth, seniors, the food insecure, those facing housing issues, etc. The City does provide services in several of these areas and staff will be prepared to discuss those services at the Budget Subcommittee meeting.

It is staff's hope that the Budget Subcommittee meeting will be another opportunity for the community to engage with the City Council and staff and share their concerns about the City's budget and have further discussion about the services that they would like to see funded in the City's budget. Staff would also like further guidance from the Subcommittee Members on how to proceed with future Budget Subcommittee meetings and items to be discussed at the future BSC meetings.

**ATTACHMENTS:**

- A. General Fund Budget Summary by Line Item
- B. General Fund Budget Summary By Department
- C. Staff Report from the June 23, 2020 City Council Meeting on the FY 2020-21 Maintenance of Effort Budget

