



DEPARTMENT OF FINANCE
August 3, 2020

TO: Honorable Mayor and City Council

THROUGH: Finance Committee (July 23, 2020)

FROM: Matthew E. Hawkesworth 
Director of Finance

SUBJECT: Update of the Financial Impact of COVID-19

Following up from the memo from June 25, 2020, staff continues to analyze the impacts of the health pandemic and related financial market turmoil for long-term impacts. These events will have lasting impacts on the revenues and expenditures of the City and its Operating Companies.

Total General Fund revenue loss forecast between Fiscal Year 2020 (FY 20) and Fiscal Year 2021 (FY 21) have improved slightly, but are still significant at \$30.4 million. While FY 20 ended on June 30, 2020, revenues will continued to be accrued through the end of August for Property and Sales Tax and through July for other tax sources. The losses in FY 20 will be partially offset by underspending compared to the budget, which has also remained largely in-line with the previous forecast.

General Fund Revenue

The Property Tax payment for June 2020 totaled \$6.79 million, which is about \$300,000 lower than the initial estimate. The Los Angeles County Auditor-Controller notified the City of delays in processing the property tax payments related to the former redevelopment agency and has stated that they will not apply these late payments until January 2021. Therefore, the \$300,000 is now reported as a projected loss in FY 20, but will help offset any unanticipated losses in FY 21. In total, property tax revenues are \$1.67 million lower than budget with two additional payment to be made. Based upon historical payment trends, the final two payments should bring actuals near the budget.

The June Sales Tax revenue comes from a combination of clean-up payments from the first quarter (January – March 2020) and an advance payment for the second quarter (April – June 2020). As stated in the June 25, 2020 memo, the total cash allocation for the first quarter was \$7.7 million and in-line with our current estimate. The second quarter advance portion of the payment was 32% lower than last year's advance payment. Since this quarter includes the bulk of the time period when many businesses

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were closed, this large drop is expected. Attached to this memo (Attachment A) is the quarterly newsletter regarding the first quarter sales tax receipts. The following table provides a revised three-year estimate. The FY 20 total revenue with accruals has improved by \$1.07 million and the FY 21 forecast is virtually unchanged as a whole. Upon reviewing the industry group details, the loss projection for Restaurants & Hotels has increased, but the outlook on Autos & Transportation and State & County Pools has improved.

HdL CITY OF PASADENA
 3 YEAR SALES AND USE TAX BUDGET ESTIMATE

Industry Group	FY 2018-19	FY 2019-20		FY 2020-21		FY 2021-22	
	Actuals	Projection	%	Projection	%	Projection	%
Autos & Transportation	8,082,164	6,767,256	-16.3%	6,645,256	-1.8%	7,396,656	11.3%
Building & Construction	1,771,254	1,616,068	-8.8%	1,667,468	3.2%	1,735,568	4.1%
Business & Industry	3,259,180	2,111,190	-35.2%	1,645,990	-22.0%	1,732,890	5.3%
Food & Drugs	2,171,748	2,284,631	5.2%	2,374,931	4.0%	2,385,531	0.4%
Fuel & Service Stations	1,694,569	1,284,489	-24.2%	1,226,089	-4.5%	1,270,789	3.6%
General Consumer Goods	9,862,640	7,071,236	-28.3%	7,483,036	5.8%	8,014,436	7.1%
Restaurants & Hotels	7,491,695	5,767,385	-23.0%	5,020,985	-12.9%	5,796,285	15.4%
Transfers & Unidentified	37,693	15,061	-60.0%	15,061	0.0%	15,061	0.0%
State & County Pools	5,117,242	5,630,495	10.0%	6,107,495	8.5%	6,596,095	8.0%
Total	39,488,186	32,547,811	-17.6%	32,186,311	-1.1%	34,943,311	8.6%
Administration Cost	(387,786)	(342,516)		(418,422)		(454,263)	
Total	39,100,400	32,205,295	-17.6%	31,767,889	-1.4%	34,489,048	8.6%
Pre Advance for 3Q18	(607,200)						
CDTFA Allocation Adjustment	980						
With Accrual	38,494,180	32,205,295	-16.3%	31,767,889	-1.4%	34,489,048	8.6%
Measure I revenues (based on 69.0% of 1% Local Tax)	5,306,009	23,048,000	334%	22,209,000	-3.6%	24,111,000	8.6%

*Estimate is on an accrual basis (allocations for sales through June)

As noted in prior financial updates regarding the sales tax forecast, small businesses have the ability to defer up to \$50,000 in sales tax payments for one-year. The forecast continues to include an assumption that \$1.5 million in revenues will be deferred from FY 20 to FY 21.

Transient Occupancy Tax (TOT) revenues received in June were \$216,000. While very low, this is in line with the estimate. While TOT revenue is \$4.0 million lower than the original FY 2020 Budget, actual revenues have come in \$1.7 million better than the original loss forecast. As the focus shifts to FY 21, this forecast will be revisited. The Langham, Constance and Sheraton hotels remain closed and have pushed back their re-opening dates to late August or September. Total revenues for major hotels had been trending down 75% for the last few months; however, for the most current four-week period, revenues have been down 72% with the current week down 60%. While these improvements are slight, they are a positive sign.

Construction, Business License, and Street Light & Traffic Signal taxes as a whole have come in stronger than anticipated and will exceed the FY 20 Budget. The FY 20 loss previously forecasted a projected \$500,000 loss, so this additional revenue will help when the year is closed.

The forecast for the Licenses and Permits category of revenue has improved slightly with the loss projection at approximately \$500,000. The initial forecast included a loss of \$600,000, so the year will close about \$100,000 better than anticipated, but still down \$500,000 lower than the original budget.

Charges for Services continue to trend down significantly, largely being driven by losses from Emergency Medical Service Billing (Paramedic Billing) and the suspension of late fees. Once June Paramedic Billing is posted and accrued back to FY 20, final revenues should meet or exceed the current projections. Total losses for this category should remain at no more than \$1.14 million for FY 20.

Projected losses of \$975,000 were added to the Intergovernmental Revenues category related to grant billing that will shift to FY 21 based on when the expenditures will occur. These revenue shortfalls are offset by expenditure reductions and are cost neutral to the fund.

Minor adjustments were made to the forecast for the remaining categories of General Fund revenues. As a whole, the General Fund revenue forecast has improved from the prior month based upon actual receipts. The total General Fund revenue loss for FY 20 is currently forecasted at \$16.54 million, an improvement of \$2.08 million.

Personnel Expenditures

Through the final pay period of FY 20, total personnel related expenditures continued to trend well below budget. While some year-end adjustments are yet to be made, General Fund personnel has finished the year \$8.5 million below budget. This savings is about \$750,000 less than originally projected in March 2020. The reduction in savings is from a combination of employees using less leave time charged to the benefits funds and increased overtime related to protest response.

The CARES Act adopted by the federal government provides certain paid leave time to employees above and beyond the City's regular leave policies. At this time, the federal government has not provided any means of reimbursement for the City. Hours recorded to these additional leave types are charged against the Benefits Fund, which could require additional contributions from the General Fund or other funds in the future to offset any shortfalls. Total Benefits Fund charges for COVID-19 leave time through the June 21, 2020 pay period exceeded \$1.27 million.

CalPERS

On July 15, 2020 CalPERS announced that their preliminary investment return for FY 20 was 4.7%. A thorough analysis is underway regarding the future financial impacts of this earnings shortfall related to their 7% target and will be presented at an upcoming Finance Committee meeting. The CalPERS announcement is included at Attachment D.

COVID-19 Estimated Costs and Funding Sources

As of July 15, 2020, total financial commitments directly related to COVID-19 response are estimated at \$18.6 million. A narrative outline of all COVID-19 funding commitments is provided in Attachment B of this report.

Summary

As public health protocols continue to change, staff monitors revenues and economic activity closely. Local economic development data has shown some activities were picking up prior to the revised public health order issued by the Governor on July 14, 2020 requiring the closure or modification to some businesses. Many businesses with professional offices in Pasadena continue to remain at minimal staffing levels with most employees telecommuting. Without the day-time population boost from these workers, the return to pre-COVID-19 activity for restaurants and other retail sectors will be slowed. In addition, each week more businesses announce large scale closures that will negatively impact Pasadena. Recently Sur La Table and GNC announced closures including their Pasadena locations. All of these factors point to a slower and prolonged recovery that will require careful analysis of all revenues and expenditures.

Attachments:

- A – Q1 2020 Sales Tax Newsletter
- B – COVID-19 Funding Narrative
- C – FY 20 General Fund Revenue Details
- D – CalPERS Reports Preliminary 4.7% Return