CITY OF SAN JOSE
CAPITAL OF SILICON VALLEY

Memorandum

TO: HONORABLE MAYOR AND CITY COUNCIL

FROM: Jim Shannon

SUBJECT: **GENERAL FUND REVENUE ASSUMPTIONS AND TRANSIENT OCCUPANCY TAX AMENDMENTS**

DATE: May 29, 2020

Approved D. DSyk

Date: 5/29/2020

The City Manager's 2020-2021 Proposed Operating Budget includes detailed information and discussion on how the Administration arrived at the revenue estimates for 2020-2021[1]. This memorandum provides further information requested by Mayor Liccardo during the May 14, 2020 City Council Budget Study Session regarding assumptions used to estimate economically sensitive revenue categories in the General Fund. In addition, based on updated information and analysis, adjustments to the 2020-2021 Proposed Budget related to Transient Occupancy Tax and Convention Center Facilities District Special Tax revenues are recommended.

RECOMMENDATION

(a) The following adjustments to the 2020-2021 Proposed Budget for the General Fund are recommended:
  (1) Decrease the Transient Occupancy Tax revenue estimate by $6,000,000; and
  (2) Decrease the Budget Stabilization Reserve by $6,000,000.

(b) The following adjustments to the 2020-2021 Proposed Budget for the Transient Occupancy Tax Fund are recommended:
  (1) Decrease the Transient Occupancy Tax revenue estimate by $9,000,000;
  (2) Decrease the Transfer to the Convention and Cultural Affairs Fund by $4,500,000;
  (3) Decrease the Cultural Grants appropriation by $2,250,000; and
  (4) Decrease the San José Convention and Visitors Bureau appropriation by $2,250,000.

[1] 2020-2021 Proposed Operating Budget, General Fund Revenue: Overview, Estimates, Descriptions

(c) The following adjustments to the 2020-2021 Proposed Budget for the Convention and Cultural Affairs Fund are recommended:
  (1) Decrease the revenue estimate for Transfers and Reimbursements from the Transient Occupancy Tax Fund by $4,500,000;
  (2) Increase the revenue estimate for Transfers and Reimbursements from the Convention and Cultural Affairs Capital Fund by $2,900,000; and
  (3) Decrease the Convention Facilities Operations appropriation by $1,200,000;
  (4) Decrease the CVB Marketing appropriation by $500,000;
  (5) Decrease the City Free Use appropriation by $200,000 and
  (6) Increase the Ending Fund Balance by $300,000.

(d) The following adjustments to the 2020-2021 Proposed Budget for the Convention and Cultural Affairs Capital Fund are recommended:
  (1) Establish a Transfer to the Convention and Cultural Affairs Fund in the amount of $2,900,000;
  (2) Decrease the Convention Center Restrooms Upgrade appropriation by $94,000;
  (3) Decrease the Rehabilitation / Repair – Unanticipated appropriation by $50,000;
  (4) Decrease the Rehabilitation / Repair – Electrical appropriation by $1,431,000;
  (5) Decrease the Rehabilitation / Repair – Mechanical appropriation by $542,000;
  (6) Decrease the Rehabilitation / Repair – Miscellaneous appropriation by $506,800;
  (7) Decrease the Rehabilitation / Repair – Structures appropriation by $127,000;
  (8) Decrease the Cultural Facilities Planning and Project Development appropriation by $50,000;
  (9) Decrease the Preliminary Engineering – Cultural Facilities appropriation by $175,000; and
  (10) Increase the Ending Fund Balance by $75,800.

(e) The following adjustments to the 2020-2021 Proposed Budget for the Convention Center Facility District Revenue Fund are recommended:
  (1) Decrease the Convention Center Facilities District Special Tax revenue estimate by $5,400,00;
  (2) Establish a revenue estimate for Transfers and Reimbursements from the Convention Center Facilities District Capital Fund in the amount of $2,300,000;
  (3) Decrease the Transfer to the Convention Center Facilities District Capital Fund by $2,000,000; and
  (4) Decrease the Ending Fund Balance by $1,100,000.

(f) The following adjustments to the 2020-2021 Proposed Budget for the Convention Center Facility District Capital Fund are recommended:
  (1) Decrease the Transfers and Reimbursements revenue estimate by $2,000,000;
  (2) Decrease the Convention Center HVAC Upgrades appropriation by $3,200,000;
  (3) Decrease the Convention Center Restrooms Upgrades appropriation by $1,100,000; and
  (4) Establish a transfer to the Convention Center Facility District Revenue Fund in the amount of $2,300,000.

BACKGROUND

As a result of the COVID-19 pandemic and the necessary response to protect community health and safety, global, national, and local economies have been – and will continue to be – significantly impacted. These unprecedented economic conditions have made revenue forecasting extremely difficult, as the analysis of year-to-date data and the application of traditional models has little bearing on future projections. The Administration has developed alternative approaches to develop several revenue estimates, of which additional information regarding the assumptions used to determine the revenue projections for the economically sensistive categories in 2020-2021 of Sales Tax, Transient Occupancy Tax, and Business Taxes is discussed below.

The City Manager's Budget Office has also continued to analyze revenue sources for 2020-2021. Based on updated information and analysis in coordination with specialized consultants and Team San Jose regarding forecasted hotel activity, recommendations are included in this memorandum to reduce revenues from hotel related taxes, including the Transient Occupancy Tax and the Convention Center Facilities District Special Tax. Downward revenue adjustments and offsetting expenditure and revenue reallocations across six funds are recommended to align revenue estimates with updated projections.

This memorandum concludes with a brief discussion to summarize some of the key risks the City faces over the coming months and into the 2021-2022 budget development process, which may assist in City Council deliberations leading up to the adoption of the 2020-2021 Proposed Operating Budget.

ANALYSIS

Additional information regarding economically sensitive revenue categories such as Sales Tax, Transient Occupancy Tax, and Business Taxes are included on the following pages. While Property Tax is typically considered an economically sensitive revenue category, collections are not anticipated to significantly change in 2020-2021 as the large majority of this revenue is based on property values as of January 1, 2020. Changes in the local real estate market that occur in calendar year 2020 as a result of the COVID-19 pandemic will primarily be felt in 2021-2022.

Broadly, the revenue estimates for 2020-2021 assume that many of the strict shelter-in-place requirements instituted since March 17, 2020 are lifted and most businesses formerly required to remain closed are open. Though the shelter-in-place orders are less restrictive, the revenue estimates assume that varying levels of social-distancing requirements and restrictions on business operations will remain in effect for the first half of the year; and that, even as restrictions are lifted, many people may feel uncomfortable in public and in close proximity to others. The Administration also assumes that economic activity is significantly weaker in 2020-

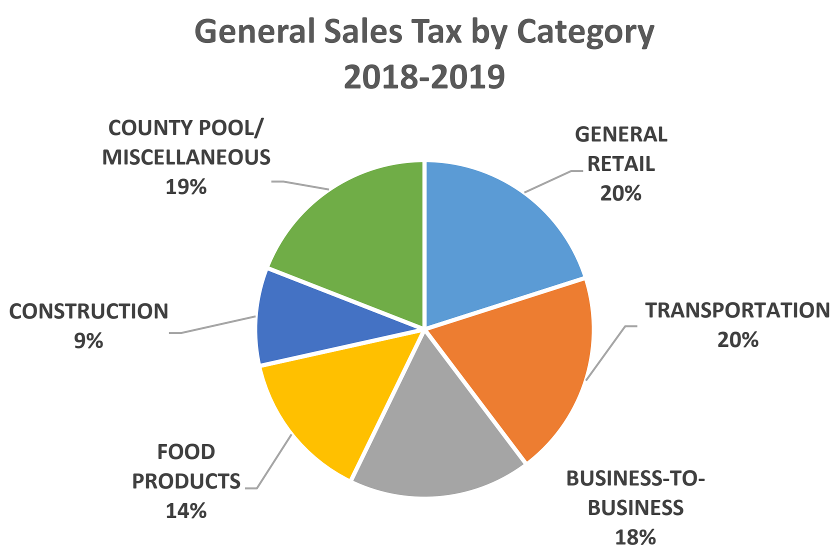
2021, the region experiences high levels of unemployment, and that an immediate rebound is unlikely.

It is important to note, however, that the Administration does not assume specific dates for businesses to reopen, specific levels of unemployment, or other precise mix of economic variables to calculate a revenue projection. The combination of both recessionary economic conditions and social distancing limitations (both ordered and perceived) render traditional economic modeling extremely problematic. Several such models provided to or viewed by the Administration were deemed to be too optimistic to use for budgeting purposes and were not used in the current forecasts.

Clearly, there is a great deal of uncertainty regarding the revenue estimates and the City Council should expect volatility and changes as we monitor progress in the coming months. As conditions change and information is updated, as in the case of hotel tax revenue, the Administration will bring forward recommended adjustments. The approaches by which the Administration arrived at the revenue estimate is described within each category below.

Sales Tax

The City receives 1.25% of the 9.25% Sales Tax collected for items sold in San José. The distribution percentage includes a 0.25% local transaction and use tax enacted by the City of San José effective October 1, 2016 (limited to 15 years). The City also receives a portion of the Public Safety Fund (Proposition 172) Sales Tax collected State-wide. Much of the historical information and analysis regarding Sales Tax centers around General Sales Tax (the 1% portion of Sales Tax in the 9.25% figure cited above). As a result, much of the discussion below centers on General Sales Tax, which is categorized as follows: general retail, business-to-business, transportation, food products, construction, and the County Pool, which captures sales not directly attributable to an individual jurisdiction, but are instead allocated proportionally by population. The category composition for 2018-2019 actual data is shown in the graph on the right.



During the development of the 2020-2021 Proposed Budget, the Administration analyzed the limited Sales Tax data that was available, consulted with economists and external economic forecasts, and reviewed projections from other public agencies. Using this information, the Administration drilled down into the individual sales categories to make assumptions regarding collection levels.

The table below details the anticipated impact to each of the Sales Tax categories compared to the prior year collection level. As displayed on the chart, the Sales Tax estimate assumes that the economy will slowly begin to re-open in the summer; however, due to recessionary conditions and social distancing requirements, sales tax activity will remain suppressed, while slowly rebounding as the year progresses.

Growth (Negative) From Prior Year Levels*

General Sales Tax Category	1st Quarter (Jul-Sep 2020)	2nd Quarter (Oct-Dec 2020)	3rd Quarter (Jan-Mar 2021)	4th Quarter (Apr-Jun 2021)
General Retail	(25%)	(20%)	(15%)	(10%)
Business-to-Business	(20%)	(20%)	(15%)	(10%)
Transportation	(30%)	(25%)	(25%)	(20%)
Food Products	(25%)	(20%)	(15%)	(10%)
Construction	(25%)	(25%)	(20%)	(20%)
County Pool	Assumed flat compared to 2018-2019 levels (pre-Wayfair)			

**1st and 2nd Quarters are compared to 2019-2020 prior quarter collections. However, the 3rd and 4th Quarters are compared to 2018-2019 quarter receipts, as the same periods in 2019-2020 were impacted by COVID-19.*

General Retail. This category is comprised of apparel, department stores, furniture/appliance, drug stores, recreation products, florist/nursery, and miscellaneous, and is impacted by both social distancing requirements and recessionary conditions. Though internet sales will help with this category, many of those purchases originate from chain or online-only vendors, which would end up in the County Pool (see below.) Activity in this category slowly grows throughout the year, but remains below 2018-2019 levels. As one of the largest categories, variations from assumptions to actuals will have a more significant impact than other categories.

Business-to-Business. This category represents sales between businesses. As with all categories, activity slowly grows throughout the year, reflecting recessionary conditions and the expectation that some establishments will permanently close their doors. This category also includes items related to business lease revenue, which may be somewhat more resilient than other sales taxes.

Transportation. Primarily driven by auto sales, fuel sales, and vehicle repair; historically, this category experiences significant losses during a recession, as large purchases and fuel consumption are impacted by lower employment levels. This category is also negatively impacted by lower fuel prices. As a result, improvements by the end of the fiscal year are modest.

Food Products. Approximately 75% of this category consists of restaurant/bar sales activity and 25% is related to taxable grocery store sales. Though grocery stores are performing well, which is expected to continue, restaurants and bars are and will continue to be extremely impacted by social distancing measures. The takeout options afforded to some restaurants are generally not available for bars. The Proposed Budget anticipates that dine-in options will be limited through the first half of the year, with rising activity levels in the second half of the year.

Construction. This category consists of both supplies and materials procured by contractors for new construction and alteration, as well as proceeds from hardware stores such as Home Depot and Lowe's. Another category historically hit hard in recessions, the recent resumption of construction activity associated with the lifting of restrictions is expected to provide a short-term boost to address projects already in progress, but recessionary conditions depress activity levels in this category through much of 2020-2021.

County Pool. The category is comprised of sales transactions not attributable to a specific jurisdiction that is received by the State and distributed to counties and cities according to population, and is heavily reliant on internet sales. Beginning in April 2019, due to the Supreme Court decision in South Dakota v. Wayfair, Inc., this category also included proceeds from out-of-state internet sales that was not previously collected (marketplace facilitator collections began in October 2019). While the Administration hopes to see stronger growth in this category due to elevated levels of online shopping, prior year data is limited and higher unemployment levels are expected to reduce non-discretionary online shopping. The Proposed Budget takes a conservative position and assumes revenues on par with 2018-2019.

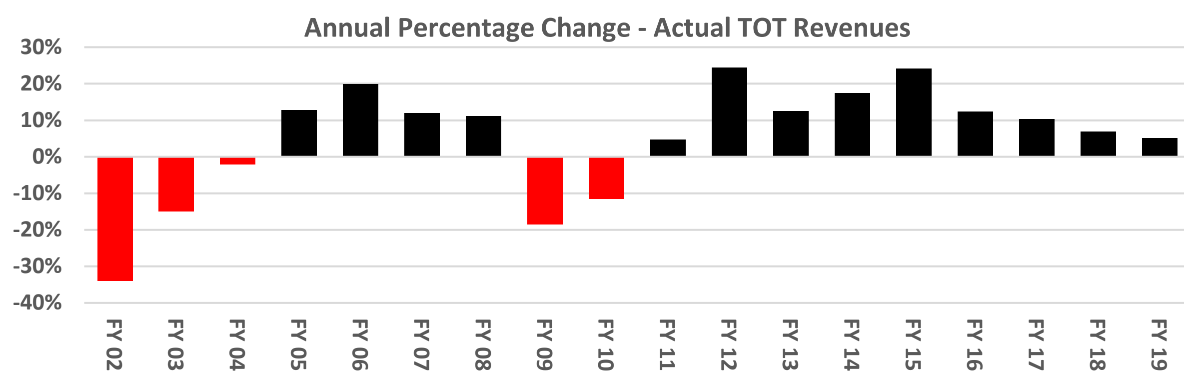
As a result of these assumptions, General Sales Tax (excluding the Revenue Capture Agreement) in 2020-2021 is expected to fall 19.0% below 2018-2019 activity levels. When factoring in the Local Sales Tax receipts – which is expected to perform slightly better since, because the tax is allocable to the specific destination of the buyers, internet-generated revenues are remitted directly to the City without flowing through the County Pool – overall Sales Tax revenues (excluding Revenue Capture) are assumed to total $220.5 million, which is $43.0 million (16.3%) below 2018-2019 actuals.

Transient Occupancy Tax

The Transient Occupancy Tax (TOT) consists of a tax of 10% on the rate charged by a hotel operator to a customer for occupying a hotel room, exclusive of other lodging-related services. TOT proceeds are shared among the City's General Fund (4% tax) for general use, and the Transient Occupancy Tax Fund (TOT Fund) (6% tax) to support specified art, cultural, and convention purposes. Pursuant to Chapter 4.72 of the Municipal Code, 50% of TOT proceeds credited to the TOT Fund supports expenditures related to the operation, maintenance, and development of the San José McEnery Convention Center and other City-owned cultural facilities, 25 % supports arts programs, projects, grants and the costs of administration by the Office of Cultural Affairs, and the remaining 25% supports the operation of the Convention and Visitor's Bureau.

A similar, but separate, Special Tax of 4% is applied to room nights for most of the hotels in San José within the Convention Center Facilities District (CCFD). The CCFD special tax financed the most recent expansion of the Convention Center in 2011 through the issuance of special tax and lease-revenue bonds. The CCFD special tax receipts are also used for capital improvements to the Convention Center and for debt service related to the purchase of the South Hall site in 2018 from the Successor Agency to the Redevelopment Agency of San Jose. The discussion and assumptions of TOT revenues applies to CCFD Special Tax revenues, as well.

TOT revenues exhibit a high level of annual variability, driven by market forces including hotel room supply and numerous factors influencing demand. These factors include prevailing national and local economic conditions and associated impacts on business and leisure travel, as well as industry-specific dynamics such as convention business, cultural events, and other group business. The chart below exemplifies this year-over-year volatility through 2018-2019 and highlights the typical challenge in projecting the annual performance for this volatile revenue source, as single digit percentage changes were observed in only 4 of the 18 years (22%) represented below and only successively on the tail end of the longest period of sustained growth.

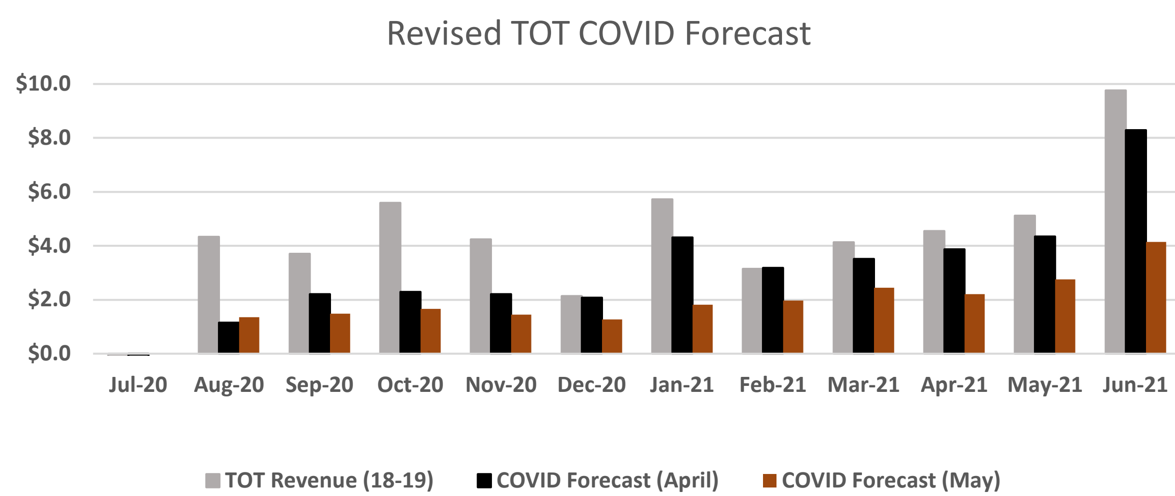


Given this annual variability and access to proprietary data for the hospitality industry, the Administration regularly engages with Team San Jose as the operator of the Convention and Visitor's Bureau, San José McEnery Convention Center and other City-owned cultural facilities, as well as consultants with industry and economic forecasting expertise to assist with projecting future TOT performance and to actively monitor performance to refine budgetary assumptions throughout the fiscal year.

The Administration continued this approach for the estimates included in the 2020-2021 Proposed Operating Budget, using the best information available. Based on a very limited sample of survey data from San Jose market hotels, when comparing the week of March 15, 2020 to the week of March 17, 2019, occupancy levels had decreased by 75.4 percent and revenue per available room (RevPAR) by 85.1 percent. Given this dramatic change, and absent other available data or external modeling, the revised forecast assumed continuation of this reduced revenue level (85% of prior performance) through July, effectively projecting that the shelter-in-place order would continue to be extended and that demand for hotel rooms would not begin to gradually increase until August 2020 at the earliest, and then continue to incrementally increase month-over-month and flatten at recessionary levels in the fourth quarter of 2020-2021. Subsequent information received in early April 2020 through further consultation with Team San Jose and from external consultants – Tourism Economics and Smith Travel Research (TE/STR) – supported these revised estimates, pending the availability of updated data.

The Administration and Team San Jose continued to engage Tourism Economics and Smith Travel Research to develop models for potential post-COVID hotel activity to inform corresponding economic impacts and TOT revenue performance, even as the 2020-2021 Proposed Operating Budget was being finalized. These models were refined and provided on May 7th, and further adjusted through collaboration with Team San Jose and TE/STR through May 21st. What became clearer with additional data and analysis of post shelter-in-place impacts is that activity in the second half of the fiscal year is forecasted to be lower than originally estimated, as both business and convention-related travel will be slow to return; and those group activities that do return will likely be convened with reduced attendance levels. As a result, the revised forecast developed in collaboration with Team San Jose results in a reduction of TOT receipts of $15 million, which amounts to a reduction in the General Fund of $6 million and the TOT Fund by $9 million. However, it is important to note that, while these models are intended to be predictive, and reflective of the most recent information available, there continues to be a high degree of uncertainty regarding sustained or resurgent impacts from COVID-19.

The graph below compares the two forecasts with 2018-2019 actual TOT collections.



The $6 million General Fund reduction is recommended to be offset by the Budget Stabilization Reserve, which would bring the reserve from $27 million to $21 million. Fortunately, the 2020-2021 Proposed Operating Budget allocated only $5 million from this reserve (from $32 million to $27 million), which accommodates the additional reductions recommended here.

The corresponding reductions in revenue to the TOT Fund and the CCFD Fund ($5.4 million) have cascading impacts in the Convention and Cultural Affairs Fund, the Convention and Cultural Affairs Capital Fund, and the Convention Center Facilities District Capital Fund as described below.

Transient Occupancy Tax Fund

- Reduce the TOT revenue estimate by $9 million, from $22.5 million to $13.5 million.
- Reduce the allocation for Cultural Grants and Administration by $2.3 million (from $5.8 million to $3.5 million, with $1.3 million available for Cultural Arts Grants), the Convention and Visitors Bureau by $2.3 million (from $5.7 million to $3.4 million), and the Transfer to the Convention and Cultural Affairs Fund by $4.5 million (from $11.0 million to $6.5 million.

Convention and Cultural Affairs Operating and Capital Funds

- Reduce the Transfer from the TOT Fund by $4.5 million (from $11.0 million to $6.5 million).
- Reduce the contribution for Team San Jose operations by $1.2 million, from $7.8 million to $6.6 million.
- Eliminate the $500,000 of annual support provided to the CVB.
- Eliminate nearly all capital rehabilitation work in the amount of $2.9 million.

Convention Center Facilities District Revenue and Capital Funds

- Reduce the CCFD Special Tax revenue estimate by $5.4 million (from $13.4 million to $8.0 million).
- Eliminate nearly all capital rehabilitation work in the amount of $4.3 million.
- Decrease Ending Fund Balance by $1.1 million (from $1.7 million to $600,000).

The above reductions are significant and will impact City operations and the Arts community. Prior to the arrival of COVID-19, the City had strong reserve levels in place, with $3.2 million reserved for Cultural Grants in the TOT Fund, a $4.0 million Revenue Stabilization Reserve and $5.0 million Capital Reserve in the Convention and Cultural Affairs Fund, and a $4.3 million South Hall Site Acquisition Debt Service Reserve in the CCFD Fund. The actions required to account for the estimated revenue loss in 2019-2020 and 2020-2021 have depleted all reserves - only modest ending fund balances remain in these funds to absorb any more revenue loss.

The CCFD Fund pays a variety of debt service related to previous Convention Center improvements, totaling $14.0 million in 2020-2021:

- Special Tax Bonds - $8.2 million
- Lease Revenue Bonds - $2.3 million
- Commercial Paper: Exhibit Hall - $2.4 million
- Commercial Paper: South Hall Site Acquisition - $1.1 million

Of these amounts, the commercial paper debt service is ultimately backed by the General Fund. While the CCFD Fund has the resources to pay all the above debt service in 2020-2021, Special Tax revenues would need to grow by 75% (from $8 million to $14 million) to fully cover all debt service payments in the CCFD Fund in 2021-2022. Though revenue levels are expected to grow in future years, a 75% year-over-year increase would be even more remarkable than the 56% revenue decline from 2018-2019 actuals to the revised 2020-2021 estimate. It is likely that commercial paper debt service payments in 2021-2022 may require support from the General Fund or other eligible funding source, such as the Convention and Cultural Affairs Fund. The Administration will closely monitor revenue collections in 2020-2021 and bring forward strategies that minimize General Fund impacts. The non-commercial paper debt in the CCFD Fund (approximately $10.5 million) can draw from restricted Revenue Stabilization Reserve ($10.3 million) as allowed by the bond documents that helped establish the CCFD.

Business Taxes

The Business Taxes category consists of the General Business Tax, Cardroom Tax, Cannabis Business Tax, and Disposal Facility Tax. Revenue collections in 2020-2021 vary for each of these categories as they are anticipated to be impacted in different ways as a result of the COVID-19 pandemic.

In 2020-2021, the **General Business Tax** category is to decrease 8% from 2019-2020 estimated collection levels. This drop reflects a net increase of the 2% Consumer Price Index (CPI) adjustment that will be assessed in 2020-2021, offset by a 10% anticipated reduction to the General Business Tax proceeds as a result of the COVID-19 pandemic's impact on local businesses. The current shelter in place is expected to result in the permanent closure of some business, and an overall reduction of employees; both of which result in lower revenue levels.

The 2020-2021 Proposed Operating Budget assumes the **Cardroom Business Tax** generates $17.1 million in 2020-2021, which is approximately 10% below 2018-2019 pre-Covid collections. Cardroom Business Tax revenue does not typically decline during recessions. During the Great Recession (2007-2008 and 2008-2009), revenue actually grew by 2% and 7%, respectively. The 2020-2021 revenue estimate was lowered to account for anticipated declines due restrictions to the cardroom's occupancy levels and social distancing requirements. However, more recent communications with the cardrooms indicates that they may be more impacted in 2020-2021 than earlier estimates assumed, with significantly limited occupancy and gameplay anticipated in the near future. The Administration suspects that this sub-category may fall below budgeted estimates, though, based on recent revenue trend data from other line items, the Business Taxes revenue category as a whole is still anticipated to meet the budgeted estimate. This category will continue to be closely monitored throughout the year, and adjustments will be brought forward as necessary.

In 2020-2021 **Cannabis Business Tax** revenue is anticipated at $17.0 million, which is approximately 2% below the estimate included in the 2020-2021 General Fund Forecast. This reduction is anticipated due to social distancing requirements that will be in place in 2020-2021.

Disposal Facility Tax (DFT) revenue can vary each year due to factors that affect the amount of waste generated and how it is disposed, including: economic activity, weather, diversion programs, and price sensitivity to disposal rates. As a result of the shelter-in-place mandate, DFT revenue is anticipated to decline 15% in 2020-2021 when compared to the estimated collection levels included in the 2020-2021 General Fund Forecast and 8% compared to 2018-2019 levels.

Uncertainty, Risks, and Potential Impacts in 2021-2022

As described above, uncertainty abounds in this unprecedented situation. The Administration would like to highlight several potential revenue risks the City will encounter over the next several months and into the 2021-2022 budget development process.

The first risk will be the actual General Fund revenues received in 2019-2020. To the extent that revenues fall short of previous projections, this will leave the City more vulnerable to future shortfalls in 2020-2021. Year-to-date tracking of revenues indicates that the City is on pace to meet its revised revenue estimates. However, Sales Tax data for April, May, and June will not be received until late August. While the most recent projection from the City's sales tax consultant anticipates higher collections than the City's revised estimate, it will be several months before we know how revenues performed in 2019-2020.

A second key risk is regarding the pace of the recovery, and the re-imposition of shelter-in-place orders later in the year due to a potential resurgence of COVID-19 cases. Generally, revenue estimates assume that activity levels begin to grow toward the second half of the fiscal year as the social distancing restrictions lessen and employment begins to tick back up. If growth is slower than anticipated – as was the case for earlier TOT estimates – revenues will fall short. Similarly, if shelter-in-place orders resume for a period time, several revenue categories, including Sales Tax, will experience significantly lower levels than forecasted.

A third risk is potential State takeaways. As the State of California struggles with its own massive budgetary shortfall, they may employ strategies to reduce revenue previously allocated to local governments, as has happened in previous recessions. One potential target may be the portion of Property Tax proceeds allocated through the Education Revenue Augmentation Fund (ERAF). The Administration has already assumed an $11.5 million (50%) reduction in ERAF payments in 2020-2021, but further reductions are possible. The State's treatment of the long-term viability of the Revenue Capture Agreement ($22 million ongoing) is also uncertain.

For these reasons the Administration prepared the Contingency Package, included as Attachment C to the 2020-2021 Proposed Operating Budget transmittal memorandum, which identifies an additional $12.1 million in General Fund reductions for the City Council's consideration if conditions worsen. This is also why the Administration recommends minimizing the use of the Budget Stabilization Reserve (now at $21 million) and recommends establishing the 2020-2021 Continuity of Operations Reserve as described in MBA #3.

Though it is still too early to estimate base budget revenue and expenditure projections in 2021-2022, identifying potential impacts under different scenarios may assist in City Council deliberations leading up to the adoption of the 2020-2021 Proposed Operating Budget.

The table below displays varying levels of potential shortfalls depending on different combinations of revenue and expenditure growth when compared to 2020-2021. With the inclusion of the $6 million reduction to General Fund TOT revenues, the 2020-2021 General Fund is balanced using $25.7 million of one-time solutions. This would mean that, all else equal – and none of the risks described above come to pass – the General Fund shortfall in 2021-2022 would be $25.7 million. The columns shaded in blue show how the ongoing shortfall would change depending on varying levels of revenue growth in 2021-2022.

		2021-2022 Potential Outcomes: Varying levels of % changes from 2020-2021			
	Revised 2020-2021 Proposed Operating Budget*	Rev - 5% Exp + 5%	Rev - 2% Exp + 5%	Rev + 2% Exp + 5%	Rev + 7% Exp + 5%
Ongoing General Fund Revenues	1,258,521,000	1,195,595,000	1,233,351,000	1,283,691,000	1,346,617,000
Ongoing General Fund Expenses	1,284,180,000	1,348,389,000	1,348,389,000	1,348,389,000	1,348,389,000
Ongoing Shortfall	$ (25,659,000)	$ (152,794,000)	$ (115,038,000)	$ (64,698,000)	$ (1,770,000)

*Includes TOT reduction of $6.0 million

For simplicity, expenditure growth is held constant at 5% to serve as placeholder for base budget cost increases, including salaries and retirement contributions, which will likely increase in 2021-2022. Though, depending investment returns and any revised assumptions by the Retirement Boards, retirement contributions could increase significantly in future years. If revenues were to decrease in 2021-2022 due to continued economic weakness or lower Property Tax revenues resulting from valuation reassessments, ongoing shortfalls would well exceed $100 million. Even a modest revenue gain of 2% would still result in a shortfall of $65 million. Revenues would have to grow by over 7% to achieve a base budget that has only a marginal shortfall of $2 million.

The Administration will continue monitor economic conditions and update the City Council as new information is received. To the extent that additional challenges arise, the Administration will work to minimize community and organizational impacts, and continue to identify thoughtful and responsible recommendations for the City Council's consideration. A preliminary look at the forecast for 2021-2022 in late fall will include a full review of updated economic conditions, as well as an analysis of base expenditure costs and revised retirement contributions as provided by the City's Retirement Boards.

COORDINATION

This memorandum was coordinated with the Finance Department and the City Attorney's Office.

Jim Shannon
Budget Director