



MEMORANDUM

DATE: May 7, 2020

TO: Mayor and Members of the City Council

FROM: Martín Bernal, City Manager

SUBJECT: NOVEL CORONAVIRUS BUDGET MESSAGE

With the backdrop of an unprecedented pandemic, I present you with the proposed budget for Fiscal Year 2021. The novel coronavirus (COVID-19) is the overarching influence and brings a crisis on a scale that we have never seen in our lifetimes. This crisis is affecting all of our work and personal lives. The level of change and uncertainty is extraordinary.

The demands on City staff to serve as the emergency management team while implementing a remarkable array of responses and ensuring the safety of the public and our employees has been exhausting. It has challenged our bandwidth and stretched many of us to beyond capacity. We are working seven days a week with many putting in 12 to 16 hour days for almost two months now. And while we are constantly worried about everyone who lives in the City, we are especially worried about the safety of our first responders and essential personnel. Moreover, as with each of you, we continue to worry about our own family members' safety.

The societal and economic impact to our community has also been unparalleled with many residents, community organizations, and businesses struggling to adapt and survive. As a community with a significant tourism economy, the impact has been particularly devastating. Nonetheless, the community has been remarkably resilient and has responded in a multitude of ways to adapt and assist each other. Unfortunately, the stark reality is that we will be dealing with the damaging effects of COVID-19 into the foreseeable future.

The fiscal impacts are no less shocking to our own City budget. There has never been a time in modern City history where we went from a projected budget surplus to a deficit of ten (10) percent within a matter of months, and where the outlook is very much uncertain. As we reported to the City Council at the April 28, 2020 City Council meeting, we expect to finish the current fiscal year ending June 30, 2020 with a \$10.4 million deficit in the General Fund. We will need to draw down our fund balances in order to cover this shortfall. Departments are also being diligent about expenditures to reduce the shortfall as much as possible. Enterprise Funds will be impacted and will have to draw down from their fund balances as well.

As we look into Fiscal Year 2021, primarily as a result of reduced revenues from the impact of the COVID-19 pandemic, we expect another significant deficit in the General Fund of at least \$6 million. The challenge we have is that we do not have enough data and knowledge about our immediate future to make reasonably adequate projections, particularly as it relates to revenues to the General Fund as well as disaster relief (FEMA) reimbursements and Federal stimulus funding. So we will need to prepare and plan for additional reductions in the coming year. The City Council has provided direction to begin discussions with all of our labor groups as we develop strategies to

May 7, 2020

Page 2

avoid layoffs and major impacts to essential services. The City Council has also appointed a Budget Committee tasked with facilitating this process and developing recommendations for City Council consideration. If necessary, after budget adoption, we will be prepared to return to the City Council for further action in September, December, and at the mid-year budget review in February.

Making these adjustments will mean that all of us will have to sacrifice, and every area of the budget will need to be examined. Leadership starts at the top. We were fortunate to be able to provide cost of living adjustments (COLAs) to employees this year and next year in addition to regular step and merit increases. As City Manager, I did not take the three (3) percent and four (4) percent COLAs given to management and executive employees and will not take merit increases (usually five (5) percent). Therefore, I will forego twelve (12) percent in pay increases. In addition, starting with the new fiscal year, I will take a ten (10) percent pay reduction without reducing my hours worked that is expected with a furlough.

Because of our all-hands response to the COVID-19 pandemic, our finance and budget teams were not able to embark on the normal budget development and review process. In addition, we were unable to incorporate all of the changes that have occurred over the last few months. Therefore, the proposed budget is a status quo or working budget that will be modified as necessary.

Moving forward, as we respond to this protracted emergency, it is essential that we work together as a team, as community leaders, with our employee groups and all of the sectors of our community. The level of collaboration and cooperation responding to this crisis amongst the jurisdictions and community organizations in our community has thus far been exceptional. Furthermore, I would like to express my heartfelt appreciation to all of the City staff who are doing superhuman work and how very proud I am of each and every one of them.

In conclusion, I want to be clear that I will lead the City and its staff through this pandemic, and the City will emerge stronger than before. I cannot predict what is yet to come, but remain confident that all of us are performing at our best, and the City Council can expect no less from us into the coming weeks, months, and beyond.

Respectfully submitted,

A handwritten signature in blue ink, appearing to read "Martín Bernal", with a long, sweeping underline that extends to the right.

Martín Bernal
City Manager