



CITY OF HALF MOON BAY

FINANCE SUBCOMMITTEE SPECIAL MEETING

MEETING DATE & TIME

Thursday, April 16, 2020 – 11:30 AM

Meeting Location:

In accordance with the San Mateo County Health Officer's March 16, 2020 and March 31, 2020 Shelter-In-Place Orders and Governor Newsom's Executive Order No-29-20, this will be a teleconference meeting without a physical location to help stop the spread of COVID-19. This meeting will be conducted entirely by remote participation, in compliance with the Governor's Executive Order N-29-20 allowing for deviation of teleconference rules required by the Ralph M. Brown Act.

This meeting will be conducted via Zoom Webinar. Members of the public are welcome to login into the webinar as Attendees. During any public comment portions, attendees may use the "raise your hand" feature and will be called upon and unmuted when it is your turn to speak. The meeting will also be streamed on Channel 27. If you do not have access to join by computer, you may phone in comments to 650-726-8271, and your comments will be read into the record. Members of the public are welcome to submit comments (in accordance with the three-minute per speaker limit) via email to jblair@hmbcity.com prior to or during the meeting (before the close of public comments on that item). The City Clerk will read all comments into the record. Please click the link below to join the webinar: <https://zoom.us/j/98225170851>

A. CALL TO ORDER

B. FISCAL YEAR 2019-20 BUDGET – ACTUALS

C. FISCAL YEAR 2020-21 BUDGET – PROJECTIONS

D. 880 STONE PINE FINANCING OPTIONS

E. PUBLIC FORUM

Public Forum provides an opportunity for members of the public to speak on any item within the jurisdiction of the Committee that is not on the agenda.

F. ADJOURN

Meeting facilities are accessible to people with disabilities. If you require special assistance to participate in the meeting, or agendas prepared in an appropriate alternative format, please notify the City Clerk's office at (650) 726-8271 at least 4 hours prior to the meeting.

**CITY OF HALF MOON BAY
CITY COUNCIL FINANCE SUBCOMMITTEE**

AGENDA REPORT

For meeting of: **April 16, 2020**

TO: Honorable Members of the City Council Finance Subcommittee

VIA: Bob Nisbet, City Manager

FROM: Lisa Lopez, Administrative Services Director
Bryan Lopez, Senior Management Analyst
Kenneth Stiles, Senior Accountant

TITLE: FINANCIAL STATUS UPDATE

BACKGROUND:

On March 10, 2020, the City's Finance team, in a presentation to the City Council at the Budget Priority Setting workshop, presented a projected total year-end revenue of \$17,299,479 for FY2019-20. However, it was also presented that the City's revenues are heavily reliant on tourism, with 1/3 of total revenues coming from Transient Occupancy Tax (TOT). Staff stated that dips in revenue from tourism related to economic, environmental, and pandemic concerns could have significant impacts on the City's revenue.

On March 16, 2020, due to the Covid-19 pandemic, San Mateo County along with five other Bay Area counties announced "shelter-in-place" orders for all residents, directing everyone to stay inside their homes and away from others except for essential business. Following this, the Governor of California issued a statewide shelter-in-place furthermore shutting down non-essential businesses, travel, and recreation throughout the state.

This decision to close non-essential business and keep people inside their homes was a necessary attempt to control the spread of the virus; however, its impact was felt almost immediately on the Half Moon Bay Coast. Hotels saw occupancy rates drop from 70 percent to 4 percent within a weeks' time, and locally, restaurants struggled to expand or develop delivery and take-out options when forced to close their dining rooms. Many retail businesses, also deemed non-essential, were forced to close their doors, sustaining a hit to their revenue and in turn impacting the City's projected sales tax revenue.

Since mid-March, City staff has been working to determine the impact to City finances and options to keep the City operational.

DISCUSSION:

FY 2019-20

At this time, staff is estimating the City will have a \$3.1 million dollar revenue shortfall. This is in large part due to a loss of TOT. Additional factors leading to this shortfall are a decrease in sales tax, closure of the recreation center, and other miscellaneous revenues.

In response, staff has stopped all nonessential spending and cut various programs and projects planned for the last few months of the fiscal year. Reductions include decreased work from consultants, projects relating to census and minimum wage, imposing a hiring freeze, limiting purchases of materials and supplies, and decreasing travel and meeting budgets. To date, these reductions are estimated to total \$750,000, but staff is continuing to find ways to cut back operational expenditures.

Considering the revenue shortfall and reductions, we estimate a net deficit of \$2.4 million. Without adjustments, this deficit would decrease our general fund reserves. However, by reallocating Capital funds not spent back to the General Fund, and reallocating settlement funds of \$480,000, the deficit can be mitigated with minimal use of reserves.

FY 2020-21

Looking forward to next fiscal year, the City is met with unprecedented uncertainty. Staff is estimating revenues to be between \$11.1 million and \$13.4 million, with the variable between the two being TOT revenue. Factors such as the shelter-in-place, tourism, and the economy greatly impact revenues and continue to remain uncertain.

The current projected gap for next year is \$6 million. As staff prepare next year's budget, this gap will be mitigated through a combination of deferment of capital projects, partial use of reserves, more programmatic cuts to operations, and reduction in labor costs, if necessary.

880 STONE PINE ROAD FINANCING OPTIONS

The City was approached by the Peninsula Open Space Trust (POST) regarding its intent to sell 880 Stone Pine Road, which is currently used for the City's corporation yard. The corporation yard is where the City's maintenance division conducts work related to facilities, infrastructure and other projects for the community. Additionally, the property houses City vehicles and other equipment.

In early March, the City entered into a purchase and sale agreement with POST, and staff is currently researching options for financing the acquisition. Three options are being investigated: cash, commercial lending, and lending from the State of California's Infrastructure Bank (iBank), each of which provides different benefits. Once the research is finalized, staff will identify the preferred option and make a recommendation to Council.

ATTACHMENT:

PowerPoint Presentation

Finance Subcommittee

City of Half Moon Bay

April 16, 2020



City of Half Moon Bay City Council

Agenda

- * FY 2019-20 Budget vs Actuals
- * FY 2020-21 Budget Projections
- * 888 Stone Pine Financing Options

Financial Status Update

| Revenues | FY 19-20 Revised Budget | FY19-20 Ending Estimate | Shortfall | % of Budget |
|---------------------------|-------------------------|-------------------------|---------------------|-------------|
| Transient Occupancy Taxes | \$6,801,090 | \$4,631,875 | -\$2,169,215 | 68% |
| Property Taxes | \$3,364,798 | \$3,364,798 | \$0 | 100% |
| Sales Taxes | \$2,875,123 | \$2,049,363 | -\$825,760 | 71% |
| All Other Revenues | \$3,355,461 | \$3,214,102 | -\$141,358 | 96% |
| Total Revenues | \$16,396,472 | \$13,260,138 | -\$3,136,334 | 81% |

Estimating a \$3.1 M shortfall in revenues

Immediate Financial Response

- * Staff has cut various things such as
 - * Materials & Supplies (\$15K plotter)
 - * Work from consultants (~\$145k), Hiring Freeze (~50K)
 - * Deferral of projects (Census Events ~20K, Classification & Compensation Study ~49K)
- * Staff continues to look for ways to cut
- * Operational cuts total an estimated \$750K

FY2019-20 Baseline Projections

- * The net deficit is projected to be **\$2.4M**
- * Without adjustments, the deficit will
 - * decrease the city's reserves by \$2.4M

Additional Options For Deficit

- * Delay of capital projects that were previously funded but not yet spent (Estimated to be \$1.8 M available)
- * Reallocation of \$480K from a previous settlement
- * Staff is researching other options to ease the deficit
- * Other municipalities are using reserves for this fiscal year.

FY2020-21 – TOT Forecast

- * Currently estimating \$2.2 M for FY20-21 (a 66% decrease/**\$4M** shortfall)
- * This assumes a slow increase in occupancy rates starting in November
- * Highly variable

FY2020-21 – Sales Forecast

- * Currently estimating \$2.1 million for FY20-21 (a 24% decrease/**\$690K** shortfall)
- * Model is based on 3 months of residual effects from SIP then remainder of the year is a recession

FY2020-21 vs. Great Recession

| | FY 2020-21 Forecast | | FY 2009-10 | |
|-------------------------|---------------------|-------------|------------------|-------------|
| | Amount | YoY | Actuals | YoY |
| Transient Occupancy Tax | 2,298,010 | -66% | 3,394,623 | -4% |
| Property Tax | 3,394,812 | 0% | 2,136,829 | -10% |
| Sales & Use Tax | 2,185,000 | -24% | 1,656,808 | -14% |
| Other Revenues | 3,248,077 | -3% | 2,064,173 | -27% |
| Total Revenues | 11,125,900 | -29% | 9,252,433 | -13% |

Unprecedented. Monitoring is the Key

FY2020-21

Budget Development Update

- * Total Revenue Shortfall: **\$6M**
- * On track to deliver a budget and capital improvement budget
- * Departments have been asked to cut 20% or more of operating budgets
- * Timeline: Finance scheduled to receive draft numbers next week

FY2020-21 Cutback Strategy



Reserves

- * General Fund Reserves vs Internal Service Reserves
- * General reserves include Operating Contingency & Economic Uncertainty
- * Internal Service Reserves include pension and other shared costs
- * Finance will present General Fund reserve policy on May 5th

880 Stone Pine Rd Acquisition

The City of Half Moon Bay currently uses th its Corporation Yard which is used to house vehicles and equipment that is used to maintain, repair, and develop City infrastructure.

Considerations leading to the decision to purchase and improve the Stone Pine property:

- Cost of alternative options
- Availability of alternative options
- Long Term benefit & sustainability of the availability of options

City staff has determined three options for the purchase and improvement of the Stone Pine property housing the City Corporation Yard.

880 Stone Pine Rd Acquisition

- * Corporation Yard a critical facility, necessary to house maintenance staff, vehicles, equipment and materials.
- * Currently located at 880 Stone Pine Road, leased from POST
- * POST selling property, first right of refusal to City, potential for eviction
 - * Limited alternatives (3+ acres commercial land)
 - * Cost of alternatives
- * Three options for acquisition and improvement of Property

880 Stone Pine Rd Funding Options

Option 1: Cash

- Availability of Funds
- Reduction in reserves
- Elimination of lending costs

- ❖ Pre-epidemic the City considered utilizing its available cash as a viable option.
- ❖ Post-epidemic the City has determined the use of cash reserves no longer viable.

❖ Interest Rates & Loan Terms are still being finalized. Terms and Interest rates are subject to change.

880 Stone Pine Rd Funding Options

Option 2: Commercial Funding

- Loan Requirements
- Loan Terms
- Interest Rates

Estimated Costs: (15yr property loan, 1y construction loan converted to 15yr standard loan totaling 16yrs)

| Loan Type | Loan Amount | Est. Interest Rate | Est. Annual Expense | Est. Cost of Borrowing |
|--------------------|-------------|--------------------|--|---------------------------------|
| Property | \$2,178,000 | 3.92% | \$192,276 | \$706,181 |
| Construction | \$1,000,000 | 3.92% | \$39,200 yr 1 int only \$88,284 yrs 2+ | \$39,200 yr 1 \$324,234 yr2+ |
| Total Cost: | | | \$231,476 yr 1 \$280,560 yrs 2+ | \$1,069,615 |

❖ Interest Rates & Loan Terms are still being finalized. Terms and Interest rates are subject to change.

880 Stone Pine Rd Funding Options

Option 3: iBank

- Loan Requirements
- Loan Terms
- Interest rates

Estimated Costs: (20yr loan)

| Loan Type & Term | Loan Amount | Est. Interest Rate | Est. Annual Expense | Est. Cost of Borrowing |
|---------------------------------------|-------------|--------------------|---------------------|------------------------|
| 20yr Property & Construction Combined | \$3,178,000 | 2.5% | \$202,080 | \$863,675 |
| 30yr Property & Construction Combined | \$3,178,000 | 2.5% | \$150,684 | \$1,342,499 |

❖ Interest Rates & Loan Terms are still being finalized. Terms and Interest rates are subject to change.

QUESTIONS

