



City Hall, 336 Pacific Avenue • Shafter, CA 93263

**AGENDA
SPECIAL MEETING
SHAFTER CITY COUNCIL
TUESDAY, APRIL 28, 2020**

CORONAVIRUS DISEASE (COVID-19) ADVISORY

To protect our constituents, City officials and City staff, the City requests all members of the public to follow the California Department of Health Services' guidance and the County of Kern Public Health Officer Order for the Control of COVID-19 restricting group events and gatherings and maintaining social distancing. Additional information regarding COVID-19 is available on the City's website at www.shafter.com.

Consistent with Executive Order N-29-20, in-person participation by the public will not be permitted and no physical location from which the public may observe the meeting will be available. Remote public participation is allowed in the following ways, please see attached supplement for instructions.

TELECONFERENCE NOTICE

Pursuant to Executive Order N-29-20 Issued by Governor Gavin Newsom on March 17, 2020 and, to the extent applicable, Government Code Section 54953(b), the April 28, 2020 City Council Meeting may include teleconference participation by the City Council Members and City staff. Consistent with Executive Order N-29-20, teleconference locations utilized by City Council Members shall not be accessible to the public and are not subject to special posting requirements.

CALL TO ORDER: 4:30 p.m.

ROLL CALL: Mayor Alvarado
Mayor Pro Tem Lopez
Council Member Garcia
Council Member Givens
Council Member Prout

APPROVAL OF AGENDA:

PUBLIC COMMENT:

This portion of the meeting is reserved for persons wanting to address the Council only on matters listed on this agenda. Speakers are limited to five minutes unless additional time is needed for translation. Please state your name and address for the record before making your presentation.

MANAGEMENT REPORT:

STRATEGIC BUDGET FISCAL YEAR 2020-2021 DIRECTION: Discussion to set the policy framework for preparing the FY 2020-21 Budget. No action requested. (City Manager Gonzalez)

1. Outlining the City's fiscal situation.

2. Establishing key short-term budget actions for 2019-20.
3. Proposing one-time use of reserves in maintaining essential service levels and avoiding regular full-time staff lay-offs due to Covid-19 fiscal impacts.
4. Tentative schedule for preparing and adopting the 2020-21 Budget

ADJOURNMENT:

Should anyone challenge any proposed action which is the subject of a public hearing listed on this agenda, that person may be limited to raising those issues addressed at the public hearing described in this notice, or in written correspondence delivered to the City Council at or prior to this public hearing. Pursuant to the Americans with Disabilities Act, if you need special assistance to participate in a City Council Meeting, please contact the City Clerk at (661) 746-5000 prior to the meeting or time when special services are needed to allow City staff in making reasonable arrangements to provide you with access to the meeting. Any public record, relating to an open session agenda item, that is distributed within 24 hours prior to the meeting is available for public inspection in the City Clerk's Office at Shafter City Hall, 336 Pacific Ave., Shafter, CA 93263. This is to certify that this Agenda notice was posted at City Hall and the Police Dept. by 5:00 p.m., April 24, 2020. Yazmina Pallares, S/S, City Clerk



Council Chamber, 336 Pacific Avenue • Shafter, CA 93263

**AGENDA SUPPLEMENT
SPECIAL MEETING
SHAFTER CITY COUNCIL
TUESDAY, APRIL 28, 2020**

**THE APRIL 28, 2020 MEETING WILL BE CONDUCTED PURSUANT TO THE PROVISIONS
OF THE GOVERNOR'S EXECUTIVE ORDER N-25-20**

In order to minimize the spread of the COVID 19 virus, please do the following:

1. You are strongly encouraged to observe the City Council meetings live via Zoom (instructions below).
2. If you wish to make a comment on a specific agenda item, please submit your comment via email by **4:00 P.M. on Tuesday, April 28, 2020** to the City Clerk at CityClerk@shafter.com

The City of Shafter thanks you in advance for taking all precautions to prevent spreading the COVID 19 virus.

Public Instructions

One tap mobile

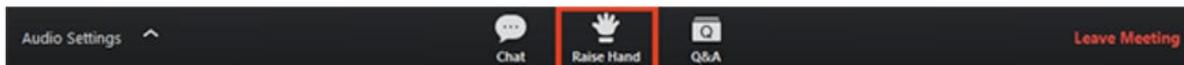
+16699009128,,85007795382# US (San Jose) 13462487799,,85007795382# US
+(Houston)

Dial by your location

- +1 669 900 9128 US (San Jose)
- +1 346 248 7799 US (Houston)
- +1 312 626 6799 US (Chicago)
- +1 646 558 8656 US (New York)
- +1 253 215 8782 US
- +1 301 715 8592 US

Meeting ID: 850 0779 5382

1. To provide public comment during designated period you must raise your hand. You will be called on by the name displayed or the last 4 digits of the phone number you are calling in from.
 - a. On computer click "Raise Hand"



- b. From mobile app. Click More and then Raise Hand



- c. From phone press *9 to raise or lower hand



336 Pacific Avenue • Shafter, CA 93263

**NOTICE OF
SPECIAL MEETING OF THE SHAFTER CITY COUNCIL**

NOTICE IS HEREBY GIVEN that a special meeting of the City Council of the City of Shafter will be held on Tuesday, April 28, 2020. The meeting will convene at 4:30 p.m., via teleconference. Said special meeting shall be for the following purpose:

MANAGEMENT REPORT:

STRATEGIC BUDGET FISCAL YEAR 2020-2021 DIRECTION: Discussion to set the policy framework for preparing the FY 2020-21 Budget. No action requested. (City Manager Gonzalez)

1. Outlining the City's fiscal situation.
2. Establishing key short-term budget actions for 2019-20.
3. Proposing one-time use of reserves in maintaining essential service levels and avoiding regular full-time staff lay-offs due to Covid-19 fiscal impacts.
4. Tentative schedule for preparing and adopting the 2020-21 Budget

Yazmina Pallares, City Clerk

Affidavit of Posting Special Meeting Notice

This is to certify that this Special Meeting Notice was posted at City Hall and the Police Department by 5:00 p.m., April 24, 2020. Further information regarding this Agenda Notice is available at City Hall, 336 Pacific Ave., Shafter, CA.

Yazmina Pallares, S/S, City Clerk

Dated: April 24, 2020



City of Shafter COUNCIL AGENDA REPORT

AGENDA ITEM NO.

Meeting Date: April 28, 2020

FROM: Gabriel Gonzalez, City Manager
Prepared By: Bill Statler, Budget Advisor

SUBJECT: STRATEGIC BUDGET DIRECTION

RECOMMENDATION

Approve strategic budget direction in preparing the 2020-21 Budget.

EXECUTIVE SUMMARY

The purpose of this report is to set the policy framework for preparing the 2020-21 Budget by:

1. Outlining the City's fiscal situation.
2. Establishing key short-term budget actions for 2019-20.
3. Proposing one-time use of reserves in maintaining essential service levels and avoiding regular full-time staff lay-offs due to Covid-19 fiscal impacts.
4. Tentative schedule for preparing and adopting the 2020-21 Budget.

Short-Term Budget Actions

The following are recommended short-term budget actions for the current fiscal year in light of the unprecedented fiscal challenges facing the City:

1. **Hiring Chill.** While recruitments may go forward for mission-critical positions, these require detailed justification on a case-by-case basis by the Department as to why filling the position meets an essential service need and cannot be effectively met through temporary staffing, overtime or contract services; and approval by the City Manager.
2. **Travel Chill.** We will limit travel and training to those situations where it is needed to maintain essential services. All Travel Authorizations must be recommended by the Department Head and approved by the City Manager.
3. **CIP Project Deferral.** Contracts that have already been awarded for capital improvement plan (CIP) projects will go forward. However, all other CIP projects are deferred pending further review of the City's fiscal situation unless they have significant subvention or grant funding that will be jeopardized if deferred or address a high-priority public safety need.
4. **Other Short-Term Budget Actions.** Operating departments will closely review current budgets for one-time and ongoing budget savings that will not have significant adverse impacts on essential services. To-date, departments have already identified about \$500,000 in operating budget savings for 2019-20.

5. ***One-Time Use of Reserves.*** Given the City’s strong General Fund reserve position, reserves will be used in maintaining essential service levels and avoiding regular full-time staff lay-offs.

These short-term actions will help effectively position the City in preparing the 2020-21 Budget by the following the “first rule of holes:” when you find yourself in one, stop digging.

Challenges Ahead but Begin with Key Strengths

As discussed below, while the City is facing significant external and internal challenges in preparing the 2020-21 Budget, it does so with significant strengths:

1. ***Balanced budget in 2019-20.*** This means the City’s faces the challenges ahead in a structurally balanced position.
2. ***“Clean” (unqualified) audited financial statements.*** The City has a long history of preparing comprehensive annual financial reports in accordance with highest industry standards: the City has received the prestigious award for excellence in financial report from the Government Finance Officers Association of the United States and Canada (GFOA) for 28 years.
3. ***Significant General Fund CIP.*** This provides the City with the short-term advantage of deferring CIP projects in mitigating operating budget cuts that would adversely impact essential service levels.
4. ***No Unfunded Pension Liabilities.*** Due to farsighted and proactive payments made in 2015 and 2018 to the California Public Employees Retirement System (CalPERS), the City’s has essentially eliminated all of its unfunded actuarial liability (UAL) for its pension obligations for both its safety and non-safety employees as of June 30, 2018 (the most recent year that actuarial information is available). The City has an exceedingly small UAL for “PEPRA” employees (those hired after December 31, 2012): for example, the UAL amortization payment next year for 2020-21 will be just \$6,800.

While this is likely to change beginning in 2021-22 due to recent CalPERS investment losses resulting from Covid-19, it is a rare accomplishment for a city in California to enter this uncertain period with no unfunded pension actuarial liabilities.

5. ***No General Fund debt obligations.*** The City begins 2020-21 with no General Fund debt service obligations.
6. ***Very strong General Fund reserves.*** The beginning unassigned fund balance for 2019-20 is 105% of operating costs.
7. ***Long-standing tradition of responsible financial management and stewardship of community assets.*** This core value will serve the City well in meeting the challenges ahead in a fiscally responsible way that preserves essential services.

Key 2020-21 Budget Preparation Principles

1. The Budget will reflect the top priorities adopted by the Council on April 16, 2020.
2. Based on the City’s strong financial condition resulting from following prudent policies and effective financial decision-making in the past, the City will continue essential service levels. This includes day-to-day delivery of operating programs as well as high-priority CIP projects.
3. One of the key tools available to the City in doing so is the prudent use of reserves in addressing one-time fiscal circumstances.
4. In light of strong reserves and other fiscal tools, making this commitment to maintaining essential service levels means no regular full-time staff lay-offs due to Covid-19 fiscal impacts. (For example, this commitment does not apply in circumstances where the need for staffing reductions is driven by external actions, such as the State closing the community correctional facility.) This commitment has two key strategic advantages:
 - It allows effective employee engagement in meeting the challenges ahead in a productive atmosphere free from fear.
 - The organization will avoid the huge downside of rebuilding service capacity after the downturn is over.
5. The City will continuously monitor its fiscal condition and make course corrections as needed. This includes revisiting the “no lay-off” commitment for regular full-time staff if unexpected circumstances surface over the next year.
6. Short-term budget actions for 2019-20 will carry-over to 2020-21 as appropriate.
7. Recognizing communication constraints under “social distancing,” the City will strive to meaningfully engage the community and organization in the budget process.

CITY’S FISCAL SITUATION

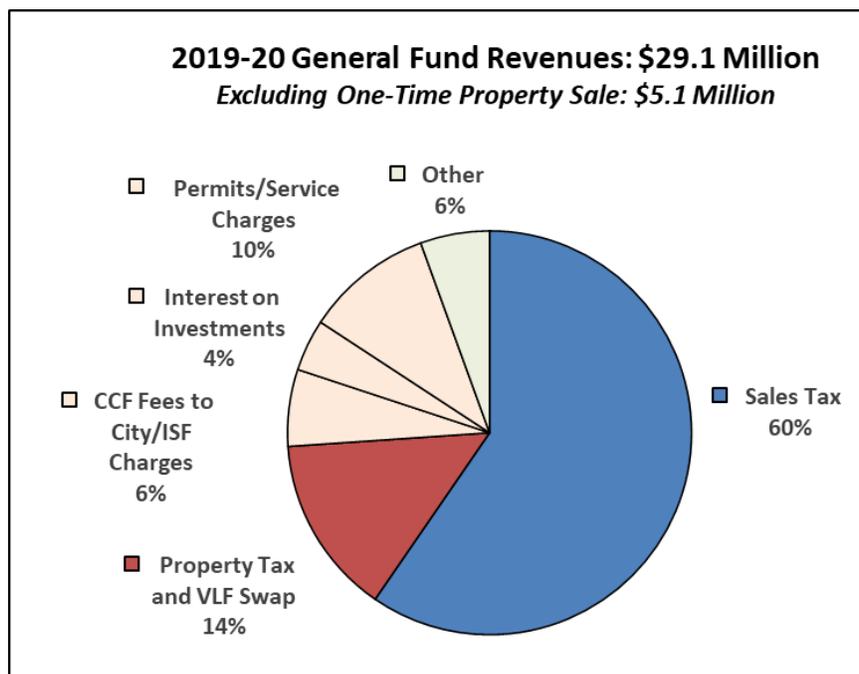
While budget preparation is a challenging organization-wide task in the best of times, stated simply: this is not the best of times. There are at two key challenges facing the City in preparing the 2020-21 Budget beyond “the usual:”

1. ***Covid-19 impact on revenues.*** Given uncertainty and limited data, it is difficult to fully assess the impact that the downturn is likely to have on key revenues in the General Fund as well as special revenue, capital project, enterprise and internal service funds. Fortunately, as discussed below, the City’s strong General Fund balance provides a significant buffer for just this type of one-time occurrence; and the revenues generated by the Williams-Sonoma Customer Care Center will help mitigate sales tax revenue losses.

2. **Community corrections facility.** Whether this facility closes in December 2020 as currently planned by the State, or earlier as speculated due to the coronavirus, its closure will have an adverse fiscal impact on the City. For 2019-20, net revenues to the General Fund, including internal service fund (ISF) charges, were projected to be \$1.8 million. As noted above, closure of the facility by the State (and not due to direct fiscal impacts from Covid-19) will result in staff lay-offs.

General Fund Revenues

The following summarizes General Fund revenues based on the 2019-20 Budget (excluding one-time revenues of \$5.1 million from the sale of property):



As reflected above, the General Fund’s top five revenues account for about 95% of total revenues, with the “Top 2” – sales tax and property tax, accounting for almost 75%. The following is a brief summary of how sales and property taxes are likely to be impacted by the Covid-19 economic downturn.

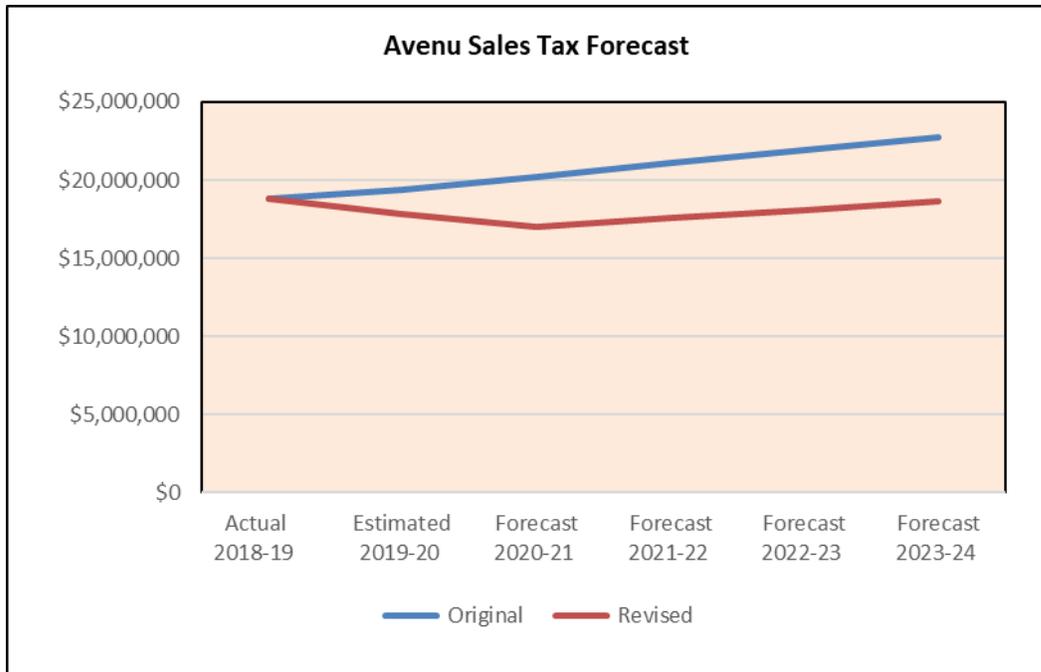
1. **Sales Tax.** The City has a unique, advantageous sales tax situation compared with other California cities due to significant revenues from the Williams-Sonoma Customer Care Center. While “bricks and mortar” retail and “business-to-business sales are likely to see large declines over the next year (Avenu Insights, the City’s sales tax advisor, projects these to decline statewide over the next nine months by about 25 to 30%), on-line sales will decline less – and may slightly increase.

Based on impacts from the 2008 Great Recession and adjusting for the City’s unique circumstance of Williams-Sonoma on-line sales, Avenu has prepared the following estimates comparing its “pre Covid-19” sales tax forecast with revised projections:

Strategic Budget Direction

Sales Tax Revenues: Avenu Projections

	Actual 2018-19	Estimated 2019-20	Forecast 2020-21	Forecast 2021-22	Forecast 2022-23	Forecast 2023-24
Original	\$18,817,000	\$19,411,000	\$20,243,000	\$21,086,000	\$21,931,000	\$22,766,000
Revised	18,817,000	17,840,000	17,039,000	17,550,200	18,076,700	18,619,000
Annual % Change						
Original		3%	4%	4%	4%	4%
Revised		-5%	-4%	3%	3%	3%



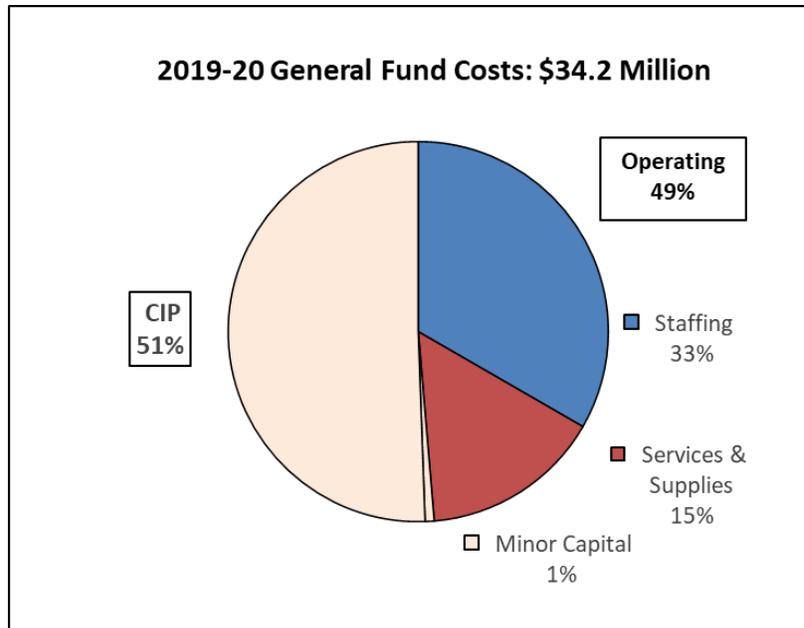
As reflected above, the *original* forecast assumed modest annual increases of 3% in 2019-20 and 4% thereafter. However, Avenu's *revised* forecast in light of Covid-19 shows decreases of 5% in 2019-20 and 4% in 2020-21: 9% over a 9-month period spread over both fiscal years, with modest recovery beginning in 2021-22. Based on this forecast, sales tax revenues are unlikely to return to 2018-19 levels until after 2024.

The budget impact is not as bad. Fortunately, because actual sales tax revenues in 2018-19 were much stronger than estimated in the 2019-20 Budget, the budgetary impact of Covid-19 will be less than reflected above. This will be more fully evaluated at the May 12 workshop.

Property Taxes and VLF Swap. While there may be cash flow impacts due to deferred property tax payment deadlines, it is unlikely that the City's property-tax related revenues will see significant adverse impacts for the balance of the current fiscal year (2019-20) or next year (2020-21), since the tax rolls for these two years have already been set. The first year where any potential adverse effects are likely is 2021-22.

General Fund Expenditures

The following summarizes General Fund expenditures based on the 2019-20 Budget:



As reflected above, slightly over half of the approved General Fund budget is for CIP projects. This provides the City with significant flexibility in deferring unencumbered CIP projects in preserving essential day-to-day services. Staffing costs account for one-third of total costs; and 67% of day-to-day operating costs.

This underscores the General Fund's underlying fiscal strength: budgeted ongoing revenues for 2019-20 are \$29.4 million compared with \$16.9 million in operating expenditures. This strong structural balance will serve the City well in responding to the Covid-19 economic downturn while preserving essential services.

General Fund Balance

As noted above, the City faces this challenge with strong General Fund reserves, which serve as the City's front-line defense in responding to fiscal adversity. Based on audited financial statements for the fiscal year ended 2019, the following summarizes the General Fund's balance at the beginning of 2019-20:

2019-20 Beginning General Fund Balance

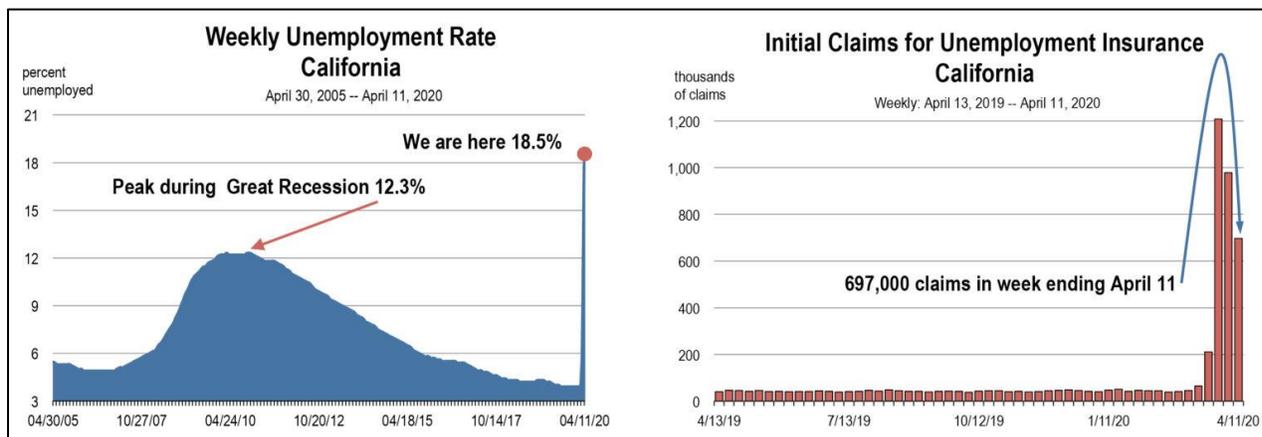
Unspendable	1,356,200
Assigned	
Loss Contingency: SBOE Petition	9,957,500
RDA Bond Proceeds: Shafter Job Center Access Imprv	1,493,700
TCP Settlement: Water Treatment Plant Imprv	1,616,600
Accumulated Losses in Other Funds	1,947,700
Funds Available for Loan to Water and Wastewater Funds	4,000,000
Strategically Planned CIP Projects	13,250,000
Total Assigned	32,265,500
Unassigned	17,809,100
Total	\$51,430,800

As reflected above, unassigned fund balance at the beginning of the current fiscal year was \$17.8 million, or 105% of operating expenditures. The assigned portion for strategic CIP projects of \$13.5 million provides added resiliency.

In this case, it makes sense to use one-time reserves in meeting one-time fiscal challenges like Covid-19 in funding current essential service levels.

Economic Outlook: City Revenues Won't Get Better Until the Economy Does

How serious is the problem? The following two charts from a recent report by the widely respected California Forecast Project (<https://californiaforecast.com>) show the depth of the problems facing the State: unprecedented unemployment since the Great Depression.



Two key questions facing all cities in the nation: when will recovery begin and how long will it take?

Strategic Budget Direction

The short answer: recovery will begin when the public health crisis over. In measuring this, Governor Newsome has set forth six criteria for opening the State economy, none of which are fully in place at this time:

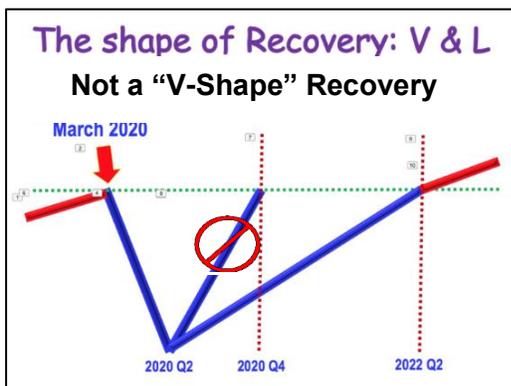
1. Expanding testing.
2. Protecting high risk groups, including seniors, the medically vulnerable and people in facilities like nursing homes.
3. Ensuring hospitals have enough beds and supplies to care for patients.
4. Progress in developing treatments.
5. Ability of schools and businesses to support physical distancing.
6. Ability to decide when to reinstitute stay-at-home orders if needed.

U.S. Covid-19 by the Numbers

- Tests 4,003,000
- Confirmed Cases 784,000
- Deaths 42,000

Source: John Hopkins University
<https://coronavirus.jhu.edu/map.html>
As of April 20, 2020

That said, even when recovery begins, most economists do not expect a sharp, “v-shaped” recovery that is as fast as the downturn. The California Forecast Project expects recovery based on the following model:



“Full recovery will occur when everyone is tested for COVID-19 and/or a vaccine is developed. Until then, there is a low likelihood that the economy can bounce back strongly (the “V” scenario).

The recovery therefore takes the form of a leftward tilted L: a sharp and deep contraction followed by a meek recovery limited by consumer caution and reticence, and government required protocols that increase spacing, constrain capacities, and disallow dense human gatherings.”

2020-21 BUDGET DEVELOPMENT

Short-Term Budget Actions

As discussed above in greater detail above, the following summarizes recommended short-term budget actions for the current fiscal year in light of the unprecedented fiscal challenges facing the City:

1. Hiring chill
2. Travel and training chill
3. CIP project deferral
4. Other short-term budget actions
5. One-time use of reserves

Purpose of Hiring Chill

In implementing the “chill,” the goal is not just short-term savings, but preserving future options in mitigating regular full-time staff lay-offs by creating a bank of vacant positions.

Key 2020-21 Budget Preparation Principles

1. The Budget will reflect the top priorities as adopted by the Council on April 16, 2020:

The goal for next one to two years is to navigate through Covid-19 recovery. Adopted strategic goals:

- *Maintain Financial Sustainability: Preserve General Fund; prudent use of reserves; fund 100% of CalPERS contributions; and capitalize on economic development opportunities.*
 - *Public Safety: Focus Police and Public Works resources to maintain a safe and vibrant community.*
 - *Employee Wellness: Continue providing adequate personal protection equipment (PPE,) and complying with Center for Disease Control (CDC) and County Public Health safety measures.*
2. Based on the City’s strong financial condition resulting from following prudent policies and effective financial decision-making in the past, the City will continue essential service levels. This includes day-to-day delivery of operating programs as well as high-priority CIP projects.
 3. One of the key tools available to the City in doing so is the prudent use of reserves in addressing one-time fiscal circumstances.
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 6. Short-term budget actions for 2019-20 will carry-over to 2020-21 as appropriate.
 7. Recognizing the communication limits under “social distancing,” the City will strive to meaningfully engage the community and organization in the budget process.

Internal Budget Preparation

Along with the significant external economic and fiscal challenges facing the City in preparing the 2020-21 Budget, the City faces three significant internal challenges (in addition to the “usual” added organization-wide effort required for budget preparation):

1. ***Lack of Institutional Memory.*** The City Manager is new, with about 30 days of tenure; and while the Finance Manager, who is serving as the Acting Director (and will continue to do so until the position is filled), is a long-term employee who is familiar with the City’s day-to-day operations, she has not been significantly engaged in the budget process in the recent past. This role was played by the vacant Director position, who was also the Acting City Manager before he left to work for Kern County as its chief operations officer.
2. ***Communication.*** Coordinating with operating departments during “social distancing” and the communication challenges this presents will be difficult.
3. ***New Financial Management System.*** The City recently completed a significant upgrade in its financial management system, replacing its 20-year software with Tyler Technologies to a more current version of its Munis software. This conversion only covered Accounts Payable/General Ledger (payroll and utility billing modules are yet to be installed, although preparation to do so is underway; and installation of the cashiering module is in progress).

Due to the coronavirus, the training that might otherwise have occurred in how to best use the new system for financial reporting and budget preparation has not happened. Accordingly, the Finance Manager is challenged by a “learn-by-doing” training approach. This also means that use of the Munis budget preparation module is highly unlikely to be used this budget season: it is simply too new and heavy added ornament to all already overloaded tree for Finance staff and operating departments to successfully manage. Excel and Word have successfully been used in the past; and can be successfully used this year. The new system also presents challenges in accessing financial information.

Given these challenges, a strong case could be made for deferring installation of the payroll and utility billing modules. However, implementation assistance from Tyler has a narrow window (which was established long before the Director vacancy and the coronavirus), and as such, deferral would result in significant delay and added costs. Accordingly, the Finance Manager believes it makes the most sense to go forward with these conversions.

The short story: The timing and constraints of these conversions make resource limits even tougher. For this reason, the Preliminary Budget that is presented to the Council may be a more focused document than the Council has reviewed in the past.

Budget Calendar

The following is the budget calendar for the Council’s consideration of the 2020-21 Budget. (Note that all dates are special Council budget study sessions except for planned budget adoption on June 16, 2020.)

Strategic Budget Direction

Date	Purpose
April 16	Strategic Planning Workshop
April 28	Strategic Budget Direction
May 12	Budget and Fiscal Policies; 2019-20 Budget Review
June 1	Preliminary Budget Issuance
June 4	Preliminary Budget: Overview and General Fund
June 11	Preliminary Budget: Special and Enterprise Funds
June 16	Council Budget Adoption (Regular Meeting)
June 23 or 30	Continued Budget Review (if needed)

FISCAL IMPACT

There are no direct fiscal impacts as a result of approving the strategic budget direction for 2020-31. However, this will provide an important policy framework for preparing the Budget.

ALTERNATIVES

1. Approve different short-term budget actions and strategy for preparing the 2020-21 Budget.
2. Do not set a policy framework for short-term budget actions and preparing the 2020-21 Budget.