



DATE: May 20, 2020

TO: Council Budget and Finance Committee

FROM: Director of Finance

SUBJECT: Potential Recovery Scenarios Post COVID-19

RECOMMENDATION

That the Council Budget and Finance Committee reviews and provides comment on this report.

SUMMARY

This report provides an overview of four potential recovery scenarios post COVID-19. The four recovery scenarios outlined in this report may act as a guide for policy decisions over the next several months.

BACKGROUND

On March 4, 2020, the Governor of California declared a State of Emergency due to the COVID-19 pandemic. On March 11, 2020, the City Manager declared a Local Emergency in the City of Hayward, which was affirmed by Resolution of the Hayward City Council on March 17, 2020.

Since the declaration of a Local Emergency, Council have been provided with several updates on the City's projected cash flow through the end of FY 2020. In addition to the City's cash flow projections, Council was provided with FY 2021 General Fund budget projections. Due to COVID-19, the City is projecting a significant reduction to several revenue streams. The projected reduction in revenues has widened the structural budget gap in FY 2021. During the April work session, Council provided staff with direction to narrow the projected structural budget gap.

DISCUSSION

With the unexpected onset of COVID-19, the City of Hayward, like most governmental agencies, is projected to experience both short-term and long-term financial implications resulting in significant fiscal challenges. Staff has committed to provide updates to Council regarding the financial implications of COVID-19, which include regular updates on the City's

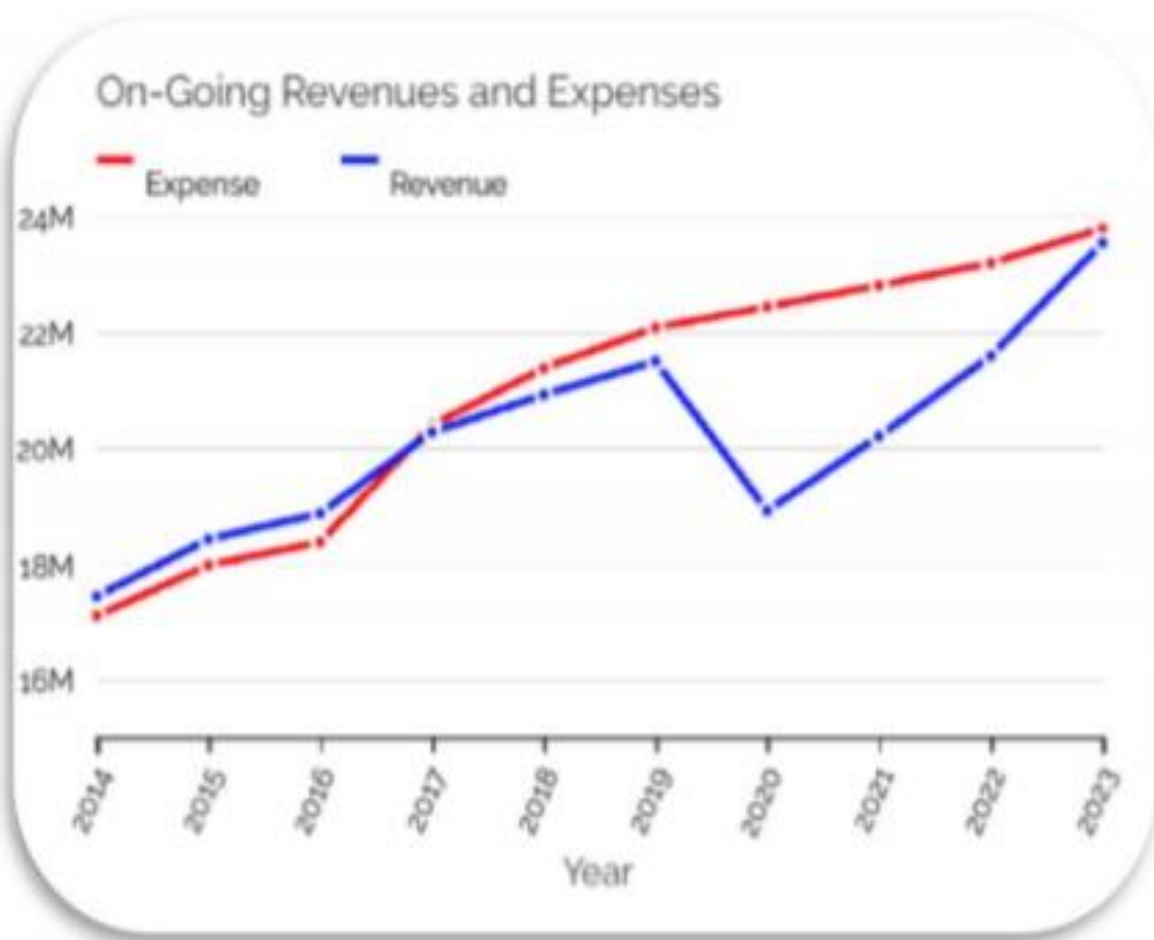
revenue projections. While this report is informational only, it provides an overview of potential recovery scenarios that could assist in guiding policy decisions over the next 18-24 months.

In partnership, Government Finance Officers Association (GFOA) and ResourceX, a fiscal analytics software firm, prepared a presentation of several potential recovery scenarios to assist agencies with addressing strategies for short-term survival and long-term transformation. The presentation was distributed by the International City/County Management Association (ICMA).

The presentation provides an overview of four likely scenarios for a post-COVID-19 recovery. The four scenarios are named according to the shape of potential city revenues when graphed over time, and are as follows:

Short-Term Scenarios

“v” Shaped: A downturn with relatively shallow impacts, accompanied by a recovery that begins immediately after the initial crisis, but extends over more than one year.



“Deep V” Shaped: A deep, rapid downturn followed by an equally steep return to normal revenue levels. A Deep V scenario could reduce an agency’s revenue by as much as half, but only for a short time, in as little as a single year.



Short-Term Recovery Strategies

Strategies for v- and deep V-shaped recoveries focus on “short term survival, bridging the gap, and buying time.” These strategies emphasize quick actions that allow the agency to continue operations, while allowing time to gather more information and plan for potential long-term effects.

“v” Shaped recovery strategies:

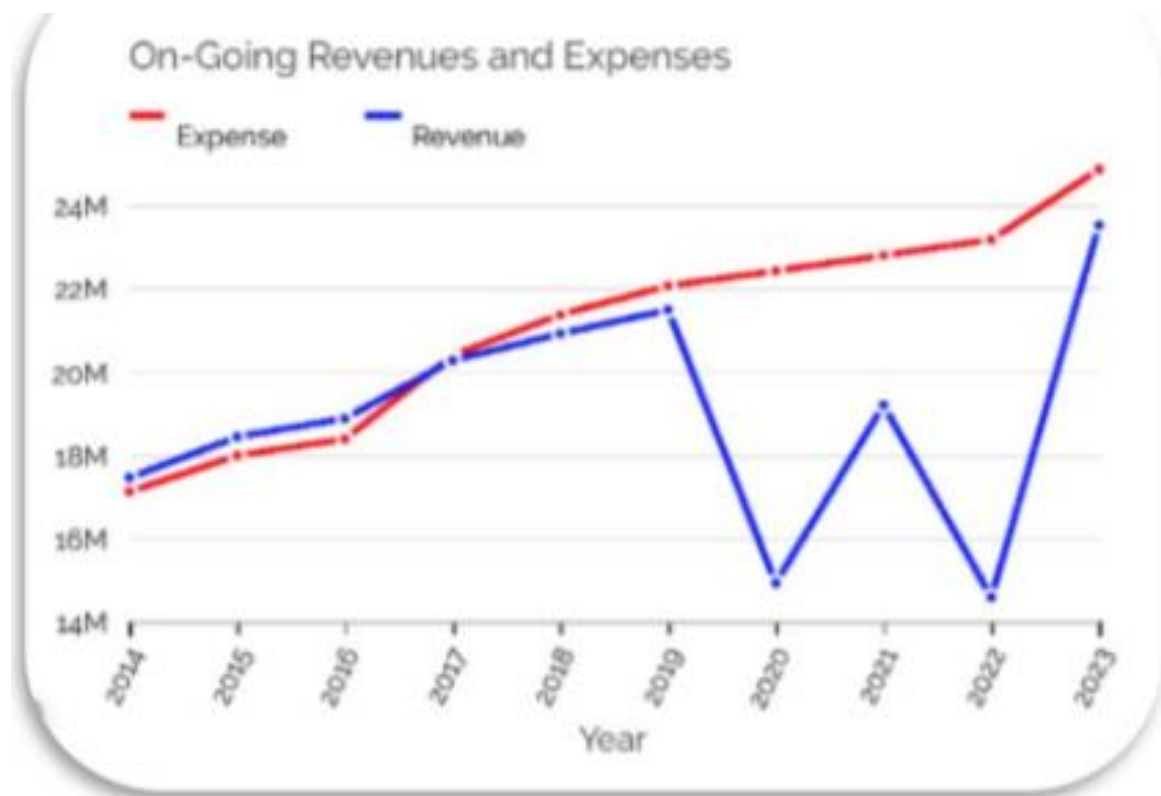
- Reduce personnel costs, including instituting hiring freezes for low-priority programs and positions; consider offering “golden handshake” retirement incentives; or negotiating temporary suspension of pay increases.
- Reduce operating costs by identifying expenses where actuals have exceeded budgeted expenses, then working with departments to understand and reduce those variances.
- Reduce capital costs by suspending or deferring planned capital improvement program (CIP) projects.
- Improve short-term cash balance by leveraging non-General Fund Reserves; existing supplies and equipment inventories; and reducing or deferring supplies and services expenses.

“Deep V” Shaped recovery strategies:

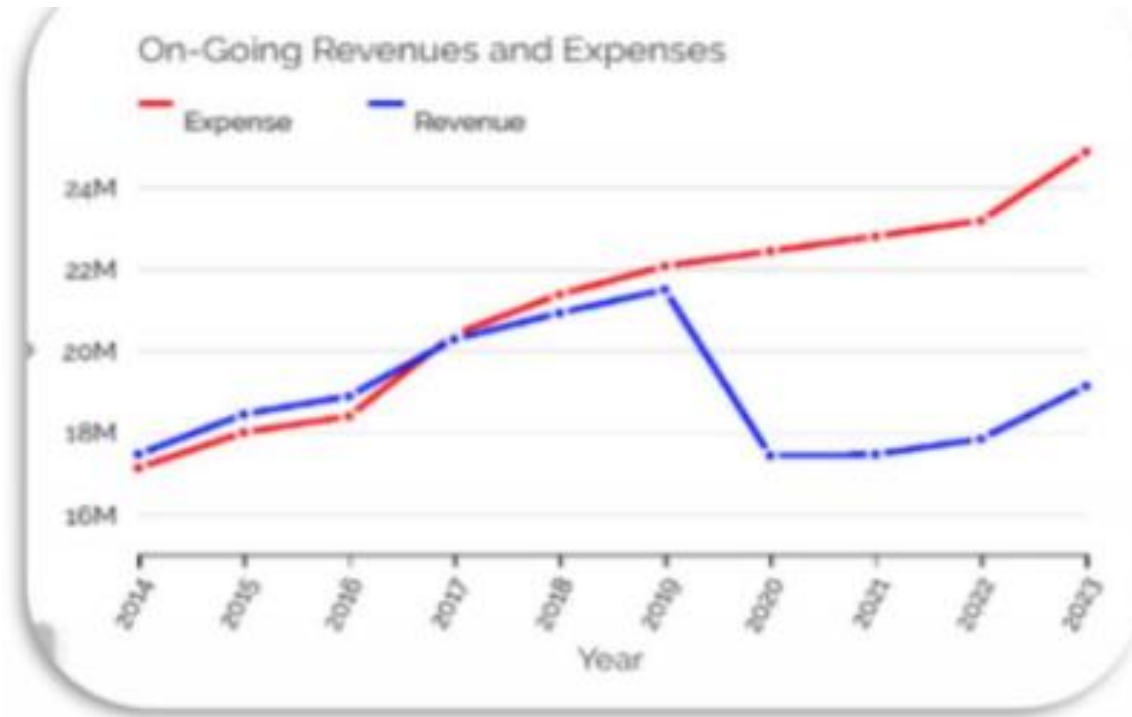
- Implement the strategies associated with a v scenario, as well as:
- Ensure that internal support expenditures are properly distributed by reviewing and updating departments’ internal service fund charges and/or cost allocations. For the general fund, services that may be reimbursed through cost allocation could include services provided by the Human Resources department or City Attorney’s Office to departments or programs funded by special revenue or enterprise funds.
- Further reduce operating expenditures by reducing service levels, temporarily suspending low-priority programs, centralizing or consolidating services, or partnering with outside agencies or organizations to deliver services more efficiently.
- Further reduce personnel costs by working with labor units to institute furlough programs or temporary salary and benefits decreases.

Longer Term Recovery Scenarios

“W” Shaped: Like a Deep V recovery, a W recovery begins with a rapid downturn followed by an equally rapid recovery. However, in a W shaped recovery, a second wave of COVID-19 infections, such as in the fall of the same year, produces another rapid downturn before agency revenue has returned to normal levels.



“L” Shaped: An L recovery is defined not by the depth of the initial downturn, but by the difficulty and length of the recovery. In an L scenario, underlying economic factors such as unemployment, credit slowdowns, or inflation delay a return to normal revenue levels for several years.



The presentation further classifies these scenarios in terms of a general strategic approach. Both the v and Deep V recovery scenarios are considered short-term, with responses focused on temporary strategies for closing the gap between revenue and expenses. The W and L recovery scenarios are considered long-term and require strategies that change operations to lower costs and build resiliency over several fiscal years. In general, strategies build on each other as the downturn deepens or the recovery is extended, so that an L recovery scenario could be addressed using the v, Deep V, and W strategies as well as strategies tailored to a slow, multi-year recovery.

Long-Term Strategies

Strategies for W- and L-shaped recoveries focus on “programmatic strategies for long-term transformation.” Given the extended recovery period, it is necessary for agencies to make structural changes to revenue and expenditures to ensure long-term resiliency. These changes would require program resource and delivery data that goes beyond budget line-items and ties expenditures to program effectiveness. Necessary data would include cost per hour or per service delivered under current program designs, potential costs for delivering services at reduced levels, and evaluation of relative importance of activities to agency operations and the community. These strategies emphasize reallocation or reduction of resources, increased efficiency, and generation of new revenues.

“W” Shaped recovery strategies:

- Implement the strategies associated with the v and Deep V scenarios, as well as:
- Temporary service level decreases or suspensions based on program prioritization. Examples include instituting longer turnaround times for building permits or FOIA requests to reduce necessary staffing levels; or pauses in delivery of services such as passport processing or youth programs.
- Identify and implement potential program efficiencies, such as paperwork reduction or new technologies. Efficiencies requiring one-time expenditures should be considered if they result in long-term cost savings.
- Generate new revenues both by applying for any available grant or philanthropic funding, as well as rebalancing service fees to better reflect the cost of service delivery.

“L” Shaped recovery strategies:

- Implement the strategies associated with the v, Deep V, and W scenarios, as well as:
- Investigate opportunities for providing contract services to neighboring agencies. Contracts should be considered for services where the City has special expertise, resources, or is otherwise well-positioned to leverage economies of scale.
- Where appropriate, discontinue in-house delivery of services and contract with another agency, such as the County, a local district, or a neighboring city for delivery of those services.
- Explore opportunities for merging programs with other regional agencies, for example creating a jointly funded sanitation district.

While we continue to move through uncharted territory, the overview of the four likely recovery scenarios is a resource that can prepare the City for what is potentially to come in the next several months. The strategies identified under each potential recovery scenario could assist the City in its efforts to react to the economic uncertainties we are currently facing and could guide policy decisions impacting both the City’s short-term and long-term fiscal sustainability. Staff will continue to review and analyze the City’s revenue projections and provide regular updates to Council on the City’s fiscal situation.

ECONOMIC IMPACT

While this report is predicated on providing economic based scenarios, it is intended to provide information only and has no specific economic impact.

FISCAL IMPACT

This report is intended to offer information only, and thus results in no direct fiscal impact.

STRATEGIC ROADMAP

This agenda item is related to the economic recovery of the resulting economic recession as a result of the COVID-19 Pandemic and does not relate to any of the six priorities outlined in the Council's Strategic Roadmap.

PUBLIC CONTACT

The agenda for this item was posted in compliances with the California Brown Act.

NEXT STEPS

Staff will continue to monitor City revenue projections and financial implications from COVID-19. Staff will provide regular updates to Council on the City's long-term financial outlook.

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Approved by:

A handwritten signature in black ink, appearing to read 'K. McAdoo', is written over a horizontal line.

Kelly McAdoo, City Manager