

The City has carried over \$3.1 million of CARES Act funding from the prior year to help offset this year's deficit. In addition, the City has \$54.5 million in the contingency reserve. If the year-end combined deficit of \$11.5 million remains, it will leave the City's General Fund contingency at \$46 million, or 2.6 percent below the City's 25 percent contingency reserve goal.

GENERAL FUND	ADJUSTED BUDGET	FIRST QUARTER YEAR-END PROJECTION	VARIANCE BUDGET VS. 1st QUARTER PROJECTIONS
REVENUES/TRANSFERS-IN	\$ 214,386,152	\$ 194,141,447	\$ (20,244,705)
EXPENDITURES/TRANSFERS-OUT	\$ 214,289,931	\$ 202,639,589	\$ 11,650,342
GENERAL FUND SURPLUS/(DEFICIT)		\$ (8,498,142)	
BUILDING & SAFETY FUND SHORTFALL		\$ (3,025,378)	
TOTAL SURPLUS/(DEFICIT)		\$ (11,523,520)	
CARES ACT FUNDING		\$ 3,094,621	
CONTINGENCY RESERVE		\$ 8,428,899	
CONTINGENCY RESERVE BALANCE		\$ 46,097,296	22.4%

COMMISSION/BOARD/COMMITTEE RECOMMENDATION

Not applicable.

ANALYSIS

City staff continues to actively engage with industry leaders regarding the local business forecast, including the Irvine Company, local hotels, and the Greater Irvine Chamber of Commerce. Businesses face competing challenges and uncharted waters as they continue to navigate the effects of the pandemic, keeping in mind the possibility of a future resurgence. Retailers will not be able to return to pre-COVID best practices and will need to make adjustments to the new normal. Businesses continue to expand their online capabilities to support increased demand while making plans to gradually reopen stores.

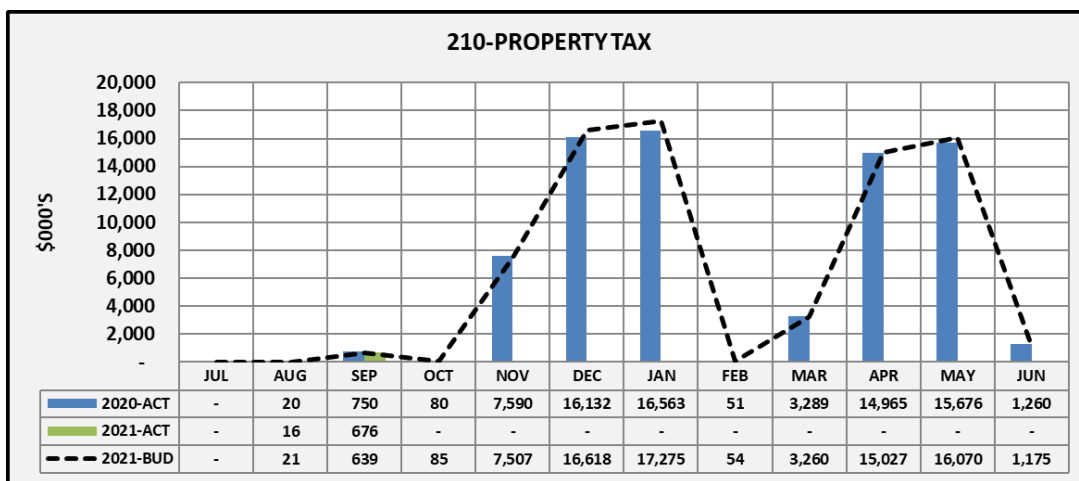
To develop the financial forecast, the Budget Office meets with City departments to gather revenue projections, review and analyze data with the City's consultants, and evaluate analysis on potential future pandemic funding. Preparing for an uncertain future requires consideration of a wide range of factors, as well as direct and indirect influences on the City. This report represents the City's best estimates based on the most current information. The FY 2020-21 First Quarter Budget Update Report (Attachment 1) is based on actuals from July 1, 2020 through September 30, 2020.

REVENUES

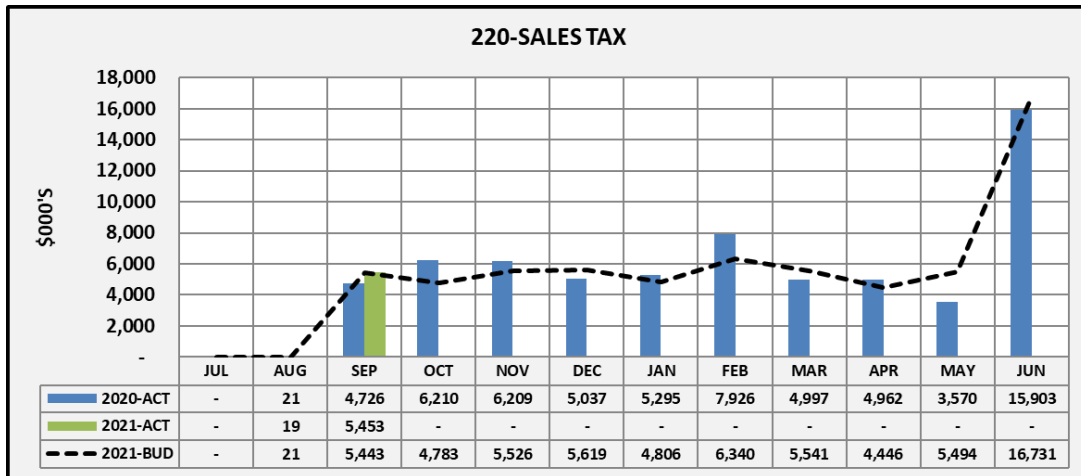
Based on first quarter results, FY 2020-21 General Fund year-end revenues are estimated to be approximately \$20.2 million, or 9.4 percent, below budget due to the

continuing detrimental negative impacts related to COVID-19. Additional data and analysis is provided in the First Quarter Budget Update Report (Attachment 1).

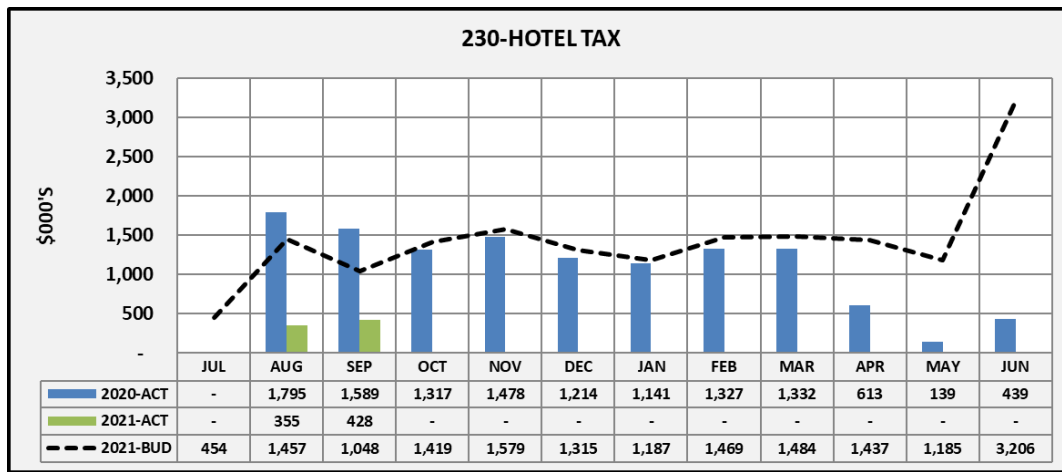
- Property Tax** revenues are projected to exceed the budget by \$2.6 million, or 3.4 percent. This anticipated increase in property tax payments are primarily attributed to a higher than budgeted growth rate in the City's assessed valuation. Property tax bills typically reflect property values anywhere from 18 months to several years prior to collection. As a result, property tax revenues are less responsive to current events in the short-term. Unprecedented low interest rates, strong demand, and the City's school and public safety reputations have continued to motivate buyers to enter the real estate market in Irvine.



Sales Tax revenue has benefited from an influx of stimulus payments into the economy and a large increase in online sales. The City has outperformed surrounding areas and the state in many sales tax categories pushing our revenues from the State and County Pools higher as consumers shift to online purchases. Prior to the pandemic it was anticipated sales tax was to going to exceed expectations. It is too early in the fiscal year to project an end-of-year outcome as uncertainties are expected to result in uneven gains through FY 2020-21.

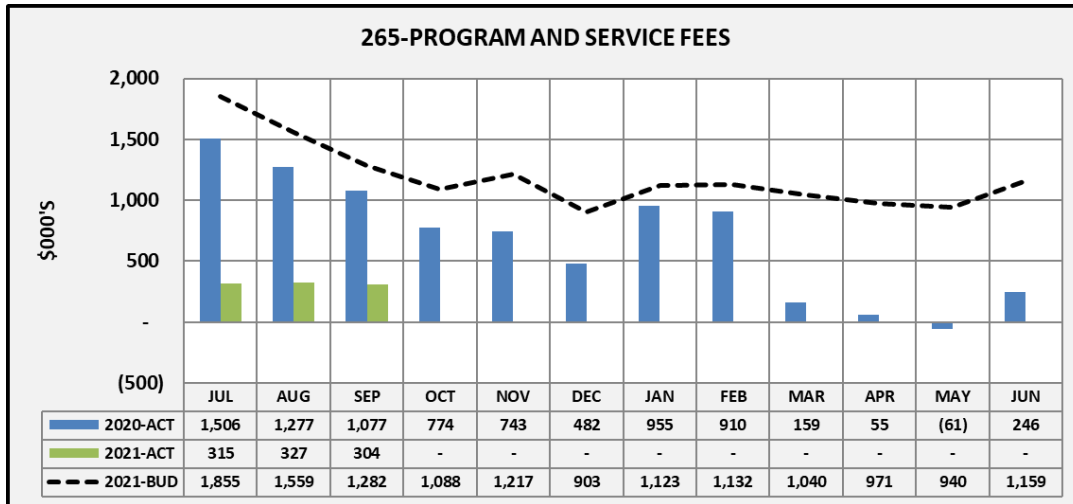


- Hotel Tax** revenue is estimated to be \$10.2 million, or 59.4 percent, below budget due to the abrupt and detrimental effects of COVID-19 on Irvine hotels and the nation’s travel industry as a whole. Hotel occupancy is slowly recovering and the rate of recovery is dependent upon social distancing measures and consumer expectations for hotels to implement safety measures. It is anticipated that hotel tax will not recover through the end of this fiscal year.



- Assessment Revenue** reflects the Hotel Improvement District’s (HID) 2.0 percent assessment applied to hotel or other lodging stays of less than 30 days. 75 percent of the tax proceeds are designated for the Greater Irvine Chamber of Commerce to promote tourism within the City and attract, recruit, and retain businesses in the City. The remaining 25 percent is allocated to support City cultural activities at the Barclay Theatre and programs at Irvine Adult Day Health Services. The HID revenue is expected to be approximately \$2.6 million, or 59.4 percent, under budget by the end of the year.
- Program and Service Fees** year-end revenues are estimated to be under budget by \$7.9 million, or 55.3 percent. Reductions are attributed to the continuing COVID-19

pandemic and related factors such as social distancing and State and County mandates and restrictions. Along with current state guidelines, these factors eliminate or substantially limit participation in indoor programs and prevent athletic games and tournaments. Community Services' part-time service model enables the revenue decreases to be offset by corresponding expenditure reductions.



EXPENDITURES

Cost-containment measures, implemented by City Council and appointed leadership, has allowed the City to continue to reduce expenditures. Cost containment measures include freezing positions and overtime, renegotiating contracts, reviewing all capital projects, restricting non-essential expenses, and most recently monitoring department budgets at the line item with the Interim City Manager and making correction adjustments where necessary. FY 2020-21 General Fund year-end expenditures are estimated to be under budget by approximately \$11.7 million, or 5.4 percent, due to these ongoing reductions. The First Quarter Budget Update Report (Attachment 1) provides further information and analysis of the fiscal year's expense activity.

The majority of expenditure savings will occur in two budget categories, personnel costs and contract services.

- **Personnel Costs** are projected to be under budget by \$7.0 million, or 5.1 percent, primarily due to normal attrition and freezing of vacant positions as cost-containment measures, as well as a reduction in part-time staffing from the closure of facilities and City programs.

