



Memorandum

TO: CITY COUNCIL

FROM: Mayor Sam Liccardo

SUBJECT: ESTIMATED BUDGET
IMPACTS OF COVID-19

DATE: April 7, 2020

**Submitted
electronically*

APPROVED: *Sam Liccardo*

DATE: *07/06/20*

RECOMMENDATION

Direct the City Manager to return throughout the budget process to:

1. Incorporate the same reduction strategies to the Mayor's and Council Offices and Council Appointee budgets as directed to other City departments.
2. Leverage the expertise, creativity, and insight of our employees by modifying the existing Employee Suggestion Program to help identify optimal cost savings and efficiencies, by:
 - a. Facilitating our employees' suggestions for budget reductions, revenue increases, or cost savings, giving each responding employee the option to select any combination of the following:
 - i. Allowing the employee's suggestion to be made either anonymously or with attribution;
 - ii. Allowing the suggestion to remain confidential within the City Manager's Budget Office, (without disclosure to anyone within the employee's department) or to be shared with all City Staff, the Council, and Public.
 - b. Identifying promising suggestions for Council consideration with evaluations of their feasibility and fiscal impacts. These suggestions should be specific, quantifiable, and offer the opportunity for immediate budgetary savings.
3. Evaluate proposals for reductions in services with an equity screen, the criteria of which must be made transparent to the Council and the public.

BACKGROUND

As we assess the fallout of the COVID-19 health crisis, we should draw upon our experience in weathering the Great Recession—and learn from its hard lessons. For example, our well-

intentioned passion for doing everything possible to salvage valued neighborhood services a decade ago cut too deep a wound in many of our support functions, such as IT, human resources, and procurement. That undermined the City's ability to restore services in the years that followed. A more resilient approach will balance outward-facing services with internal capacity.

Moreover, a decade ago, we could have done more to engage constructively with our employees to solicit their ideas for cost savings, in advance of much more difficult conversations about shared sacrifice. Our employees often have the closest view of the problems, and have creatively fashioned and deeply considered solutions.

Fortunately, we have a good model from which to draw for workforce engagement—the City's Employee Suggestion Program. I recommend that the City Manager amplify and adjust this program as needed to gather the best thinking of our employees identify optimal cost savings and efficiencies, or even revenue generation (for example, if the City opens a toilet paper factory). Helpful employee suggestions will focus on near-term, specific cost savings opportunities that offer a quantifiable budget savings. The City Manager should share these suggestions to Council for discussion, and streamline the program to align with our budget process.

Of course, with even the best ideas, our City will suffer severe fiscal deficits. In my March 6th Budget Message, I acknowledged the downward economic trajectory that would be compelled by the County's identification of our first case of community COVID-19 transmission the prior week. The City Manager's Budget Office currently projects a revenue shortfall of \$110 million over the next two years, and they acknowledge that it could be worse by tens of millions of dollars.

I would expect worse. Many widely heeded economists—most recently Morgan Stanley's—point to the substantially deeper job losses than we experienced during the Great Recession, a period during which the City encountered two-year cumulative deficits of approximately \$230 million. Many revenue sources have fallen off a cliff; the Valley Transportation Authority's Chief Financial Officer reported this week a 50% drop in sales tax revenue to that agency, for example. The pandemic has also burdened the City budget with increased costs related to the purchasing of personal protective equipment (PPE), sanitizing materials, test kits, and IT equipment. While FEMA reimbursements and federal stimulus may offset much of these and other Emergency Operations Center (EOC)-related staff costs, Congress has not authorized any funding to fill the large holes in municipal budgets caused by our current economic depression—and probably never will.

Accordingly, we should prepare ourselves for the worst, while we work furiously to do better—and to support a rapid economic rebound. Preparation requires making very difficult decisions in the weeks ahead. All departments—including my own office, Council Offices, and Appointees—will need to do their part in cutting costs while also preserving our capacity to provide essential services to our residents.

In the coming weeks and months, we will gather more information about the magnitude of our budgetary crisis. In the meantime, we must leverage the best ideas to develop a responsible approach to budget-cutting that will minimize the fiscal impacts upon our residents and workforce.