



**TO: Honorable Mayor, City Council Members and**

**THRU: Ed Lavallee, ICMA-CM, MPA, City Manager**

**FROM: Linda Senne, CPA, Finance Director *LS***

**DATE: May 6, 2020**

**COUNCIL MEETING DATE: May 12, 2020**

**SUBJECT: COVID-19 Impacts on Budgeted Expenses**

Expenditures are tracking well and appear to be in line with authorized appropriations after the first six months of the fiscal year (as of March 31, 2020). Of course we have concerns, and there are many uncertainties pertaining to the coronavirus pandemic (COVID-19) and the impact on the City's FY2020 and FY2021 budget.

*COVID-19 Related General Fund Expenditures*

The Police and Fire Departments' budgets combined (excluding EMS) are 59% of the City's General Fund Budget. There have been several Police and Fire Department expenditures in the last month related to COVID-19 that were not budgeted (but authorized by the City Manager). These include the following:

Disinfection services at police station	\$ 4,194
3 aeroclave units for fire department	46,734
Early hiring of several EMS paramedics	41,366
<b>Total</b>	<b>\$ 92,294</b>

In addition, there was approximately \$8,100 spent on small protective equipment, thermometers, hospital sanitizers, Lysol wipes, and other miscellaneous supplies to protect the safety, health, and well-being of residents and employees. Also, \$9,904 was expensed relative to communications and technology such as Zoom licenses, Cisco Webex, etc. The total expenses to date as a result of COVID-19 are \$110,298. All these additional expenses were included in the "Expected FY2020" column on the March 31, 2020 Financial Management Report.

The City has looked at all Department budgets for opportunities to delay expenses and conserve cash. Effective May 1, 2020 and until further notice, City Manager approval will be required to fill vacant positions, conferences and trainings have been cancelled except where mandated for licensing or certification, our staff retreat was cancelled, vehicle purchases have been frozen except for necessary replacements, and certain capital projects are being postponed or delayed.

Following is a look at the expected financial effect of these measures on the City's general fund for FY2020:

## **GENERAL FUND**

### **Personnel Costs**

There are three positions currently vacant in the City's general fund. The hiring process was already underway to fill the vacancies for these positions. However, we have had savings from these and other vacant positions during the year. The savings are expected to be in excess of \$150,000.

### **Operating Expenditures**

The City Manager has directed Department heads to curtail operating expenditures for the remainder of the year, limiting them to essential items only. We expect to see FY2020 budgetary savings of over \$300,000 in travel and training, staff retreat, operating supplies, professional and contractual services, equipment rent, legal, and special events.

### **Capital Outlay**

We reviewed all capital projects/purchases budgeted for FY2020 with the department directors. Of the \$710,105 budgeted in the general fund for capital in FY2020 (excluding the EMS lease), we have identified budget savings of just under \$75,000, and one project that can be delayed which was budgeted at \$45,000.

### **Revenues**

We continue to revise our estimates of expected revenue for FY2020 on a weekly basis. Our latest projections allow for a reduction in FY2020 revenues of \$1.17 million related to the coronavirus pandemic (schedule attached). Fortunately, revenues were running better than expected; absent the pandemic, we were expecting to end FY2020 with revenue \$810,776 better than budget. The latest assumption therefore, is that revenues will fall short of budget by \$358,265.

These revenue assumptions are based on significant losses in March, April and May, trending back to status quo by August or September. It therefore expects a significant rebound to levels before the pandemic by fiscal year-end. A coronavirus "second wave" would cause us to revise these estimates downward.

### **Balanced Budget**

Our current estimates for the City's general fund for FY2020 are that revenues will fall short of budget by \$358,265, but expenditures will also be less than budget by approximately \$415,000. The FY2020 budget was balanced, with revenues equaling appropriations (excluding EMS start-up expenditures), so this would translate into an "addition to reserves" for FY2020, excluding the EMS start-up costs.

## **OTHER FUNDS**

### **One Cent Sales Tax Fund**

We applied similar coronavirus-effect assumptions to the City's one cent sales tax revenues, which were also running better than budget. For the seven months before the pandemic, revenues were running about \$250,000 *better than* budget on an annualized basis. We're currently estimating a \$475,000 impact from the pandemic, so predicting we'll end the year with revenues about \$225,000 *below* budget.

With the departments' assistance, we have identified project savings of almost \$450,000 in the one cent sales tax fund, and another \$210,000 in projects that can be delayed in the event lower revenues materialize.

### **Utilities Fund**

Because of the large volume of utilities projects, we have worked with the Utilities department to design a cash flow model that we can use in the event of revenue shortfalls. Projects totaling \$16 million could be delayed. Revenue shortfalls in this fund are not anticipated.

## **SUMMARY**

As reported earlier, with the exception of a decline in commercial dumpster service in the solid waste fund, we have not seen any noticeable impact on the City's revenues to date. However, most of the revenue sources identified above are received two months in arrears; we will know in May how bad March was. We have been monitoring news headlines and other industry reports to assist with our revenue estimates for FY2020.

FY2021 is even more difficult to forecast. A lot depends on how the economy "bounces back" and whether there is a "second wave" of the virus. We will continue to monitor the situation, and will know more as each week passes.

The cost saving measures above will continue until the effect of the pandemic on the City's finances becomes clearer. If monthly revenues come in better than expected, we may ease some restrictions. If they come in worse, we'll extend them and consider additional cuts.

The City Manager will submit a FY2021 proposed budget to you in June. Finance will have the books for that budget to the City Council members in early June. The budget will be balanced, using conservative revenue estimates.

Finally, we are working to identify additional steps that could be taken if revenues fall below these projections". In the meantime, our "rainy day" reserves in each fund are sufficient.

Potential Losses

FY2020

Revenues

GENERAL FUND	2020 Budget	Normal Projection		COVID Impact	Post-COVID Expected Revenue	Budget Variance	COVID Impact Percentage
		Pre-COVID Budget Variance	Pre-COVID Expected Revenue				
Property Taxes	\$ 14,977,100	\$ 204,950	\$ 15,182,050	\$ (204,950)	\$ 14,977,100	\$ -	-1.37%
Communication Service Taxes	1,199,400	203,900	1,403,300	-	1,403,300	203,900	0.00%
Utility Taxes - Electric	2,551,500	177,600	2,729,100	(201,000)	2,528,100	(23,400)	-7.88%
Franchise Fees - Electric	1,834,900	84,811	1,919,711	(135,811)	1,783,900	(51,000)	-7.40%
State Revenue Sharing	618,200	15,150	633,350	(79,350)	554,000	(64,200)	-12.84%
Half-cent Sales Tax	2,204,200	-	2,204,200	(276,300)	1,927,900	(276,300)	-12.54%
Interest Earnings	426,500	-	426,500	(135,650)	290,850	(135,650)	-31.81%
Rents	792,360	32,440	824,800	-	824,800	32,440	0.00%
Transfer in - Gas Taxes	900,845	-	900,845	(135,980)	764,865	(135,980)	-15.09%
Transfers in - Admin. Fees	3,193,961	-	3,193,961	-	3,193,961	-	0.00%
Rescue Lease Proceeds	1,450,196	(49,476)	1,400,720	-	1,400,720	(49,476)	0.00%
	30,149,162	669,375	30,818,537	(1,169,041)	29,649,496	(499,666)	-3.88%
All Others	2,435,892	141,401	2,577,293	-	2,577,293	141,401	0.00%
Total Budget	\$ 32,585,054	\$32,585,054	\$ 33,395,830	\$ (1,169,041)	\$ 32,226,789	\$ (358,265)	-3.59%

ONE CENT SALES TAX FUND	2020 Budget	Normal Projection		COVID Impact	Post-COVID Expected Revenue	Budget Variance	COVID Impact Percentage
		Pre-COVID Budget Variance	Pre-COVID Expected Revenue				
One Cent Sales Taxes	\$ 3,511,100	\$ 250,600	\$ 3,761,700	\$ (475,500)	\$ 3,286,200	\$ (224,900)	-13.54%

Normal Projection	outcome we would expect Pre-COVID
Post COVID Expected Revenue	the modified projection due to COVID-19
Budget Variance	difference between budget and Post COVID Expected Revenue
COVID Impact Percentage	COVID Impact / budget \$ amount