



INTEROFFICE MEMORANDUM
Office of the City Manager

DATE: April 9, 2020 **FILE:** CM-20-019
TO: Mayor, Vice Mayor, and City Commissioners
FROM: Dr. Wazir Ishmael, City Manager
SUBJECT: Fiscal Year 2020 General Fund Budget – COVID-19 Impact

Issue: All organizations in the public and private sectors will inevitably experience an impact as a result of the ongoing COVID-19 Pandemic. As we are at the halfway mark in our Fiscal Year, it is prudent and imperative that we study and analyze our financial condition.

Explanation: The Office of Budget and Performance Management conducted a thorough analysis of our collected revenues and programmed expenditures as of February 29, 2020 in an effort to provide a budgetary projection for the remainder of the current fiscal year. Whilst our projections and trends do provide us with a cautiously optimistic outlook, it is imperative that given the sheer magnitude and unknown duration of the current climate, we must implement cost savings measures Citywide. We are confident that these judicious fiscal measures combined with our incessant review of budgetary conditions will ensure that our financial condition will remain strong for the remainder of FY 2020.

Recommendation: For your information

C: Deputy City Manager
Assistant City Managers
City Attorney
Department/Office Directors

DATE: April 9, 2020 **FILE:** OBPM 20-007

TO: Wazir A. Ishmael, Ph.D.
City Manager

VIA: Adam Reichbach
Assistant City Manager, Finance and Administration

FROM: Laurette Jean
Budget Director

SUBJECT: Fiscal Year 2020 General Fund Budget – COVID-19 Impact

As government finance professionals, we are trained to be fiscally conservative and to always prepare for the worst. Yet, who could have fathomed a worldwide pandemic that would result in a global health crisis, non-essential business closures, market crashes, social distancing and staggering unemployment figures. Uncertainties regarding the magnitude and duration of this pandemic pose significant challenges for local governments.

Methodology/Approach

Due to the many uncertainties associated with the novel coronavirus, we cannot definitively quantify the fiscal impact it will ultimately have on the City. However, the Budget & Performance Management staff have been diligently working, in collaboration with various City Departments, to run projection models to determine the potential budgetary impact of this pandemic. The projection model incorporates financial data posted through February 29, 2020, analyzes revenue and expenditure trends over the past 6 months and includes historical trends (including pre-recession and post-recession trends). Additionally, the General Fund revenue projections are based on the following assumptions:

- Non-essential businesses and City facilities will remain closed through at least mid-May.
- We anticipate that not all local businesses will resume operations immediately and some may not re-open at all.
- Even as businesses and City facilities re-open, we anticipate that the economic hit to City revenues will be substantial and may mimic and possibly exceed prior recessionary trends.
- At least 95% of the outstanding property tax payments will be received by April 15th pursuant to the State's Order of Emergency Waiver which extended the deadline for property tax payments from March 30, 2020 to April 15, 2020.

- The impact on State Shared Revenue (such as sales tax) will not be realized until June (as revenues are typically received from the State two-months in arrears).
- Given that the City's largest revenue source, property taxes, have been collected, we do not anticipate potential cash flow issues through fiscal year end.

General Fund Revenue Analysis

On a positive note, nearly 70% of the General Fund revenues have been collected through the end of February. This is attributable to 90% of property tax revenues being collected.

For the purposes of this analysis, we have separated General Fund revenues into two categories: Potentially Delayed Revenues and Potentially Lost Revenues.

Potentially Delayed Revenues

Certain revenue sources are expected to be received later than the usual timing of collection once normal operations resume, but those collections may not occur until FY 2021. We have categorized these revenues as Potentially Delayed Revenues. After a thorough review of the City's General Fund revenue sources, we anticipate delays with the following revenue sources:

- **Property Taxes:** As previously stated, nearly 90% of the budgeted property tax revenues have been collected. We anticipate that at least 95% of the outstanding ad valorem tax payments will be collected by the end of the fiscal year.
- **Building Revenues:** Although City Hall is closed, the Building Division continues to provide online services to customers (such as ePermit Plan Review and Virtual Inspections). We anticipate that the revenues will be collected for active applications. We also anticipate revenue losses as a result of the economic hit caused by the pandemic. The revenue loss is explained in the next section.
- **Utility Service Taxes:** The utility service taxes include electric, water, gas, and communication service tax. Aside from the electric tax, an analysis of the utility services taxes indicate that these revenue sources are often collected even during a downturn in the economy. Based on our analysis, we anticipate delays in the collection of utility service taxes with potential reductions in the amount collected.

Potentially Lost Revenues

Most of the revenues collected are expected to be reduced over the next six months. However, there are several revenue sources that may not be collected or recaptured for every month the *Safer at Home* order remains in effect. These revenues include but are not limited to:

- **Sales Tax:** Approximately 42% of the budgeted sales tax revenues have been collected as of February. Sales tax revenues are typically remitted two months later by the State. As such, the current analysis assumes that sales tax revenues earned prior to the executive order, will be received as expected for the next two months. For the remaining four months, sales tax revenue losses are expected.

Estimated Revenue Loss: Approximately <\$503,676>

- Interest Earnings: Recent federal cuts on interest rates are beneficial for borrowing, however, it can negatively impact interest earnings on investments. Due to the uncertainties with interest rates, this analysis conservatively estimates low interest earnings through the end of the fiscal year.

Estimated Revenue Loss: Approximately <\$383,024>

- Electric Utility Taxes & Franchise Fees: Florida Power & Light recently announced a request made to the Florida Public Service Commission for a one-time reduction of nearly 25% to residential customers and an equally significant reduction for businesses. We anticipate that the one-time reduction will result in reduced electric utility taxes and electric franchise fees revenues remitted to the City. Additionally, non-essential business closures is expected to further reduce these revenue sources for every month closed.

Estimated Revenue Loss: Approximately <\$733,549>

- Park Revenues: Approximately 52% of the Parks, Recreation and Cultural Arts Department revenues have been collected through the end of February. The first six months of the fiscal year, Parks revenues were 21% higher than the same time last year. On the contrary, due to park closures and cancelled programs, we anticipate that the revenue loss will be closely mimic revenue loss during the last recession.

Estimated Revenue Loss: Approximately <\$262,141>

- Building Revenues: As previously stated, the Building Division staff continues to process customer requests and applications during the Safer at Home order. Yet with so many business closures and high unemployment rates, it is difficult to gauge the short and long term economic development impact particularly with construction. Conservatively, this report assumes a similar rate of revenue loss experienced during the last recession.

Estimated Revenue Loss: Approximately <\$1.2 million>

Overall, the General Fund revenue projections reflect a shortfall of \$4 million. This is a conservative projection and will certainly change as information becomes available. Below is a summary of the elements that make up the projected revenue loss.

Table 1: Summary of Revenue Impact

Potentially Delayed Revenues	\$ (780,318)
Potentially Lost Revenues	\$ (3,116,632)
Normal Increases/Decreases	\$ (126,865)
Total Projected Revenue Impact	\$ (4,023,815)

General Fund Expenditures

The General Fund expenditures are trending as expected with an estimated \$3.7 million savings based by the end of the fiscal year. The projected savings are broken down as follows:

Table 2: General Fund Expenditure Projection

	Amended Budget	Year End Projections	Variance
Personnel Services	202,232,206	199,321,540	2,910,666
Operating Expenses	35,281,852	34,925,321	356,531
Capital Outlay	150,929	150,400	529
Debt Service	5,248,284	4,748,284	500,000
Non-Operating Expenses	38,250,055	38,233,068	16,988
Fund Balance Reserve	37,991,925	37,991,925	---
Total Operating Expenses	319,155,251	315,370,538	3,784,714

Based on current trends, the following assumptions have been made in this analysis:

- Salary expenditures over the past six months will continue at the same rate through the end of the fiscal year.
- During the first six months of the fiscal year, we have seen an increase in accrual leave payouts related to pension restoration and anticipate the cost will be significantly higher than the prior years.
- Reduction in discretionary spending in certain operating accounts such as office supplies and training is expected as a result of employee telecommuting and City facility closure to the public.
- Debt service payments are anticipated to be lower than budget due to delays in borrowing for capital projects.

To summarize, our preliminary projections of General Fund revenues and expenditures reflect an estimated shortfall of \$239,102 by year end. The projections are conservative and based on financial data posted through February 29, 2020. It does not take into account the cost saving measures recently implemented but will be incorporated in future reports.

Table 3: Summary: Fiscal Year 2020 General Fund Projections

Revenues	\$	315,131,436
Expenditures	\$	315,370,538
Projected Variance	\$	(239,102)

It is important that we continue to stress that it is unrealistic to accurately quantify the length and depth of the potential impact that may be caused by this pandemic. For this reason, it is

critical that we continue to identify and implement cost saving measures Citywide. As a reminder, the following measures have been put into place:

Personnel Savings:

- Freeze all personnel changes that may result in cost increases to the City.
- Freeze non-critical personnel hiring.
- Reduce temporary staff contracts and utilize available personnel resources from other departments (such as Parks).

Operating Savings:

- Freeze all discretionary travel outside of the South Florida region.
- Review existing operating contracts and work with Procurement to reduce non-critical material and contractor costs over the ensuing months.
- Go paperless and leveraging available technology to enhance services and reduce costs.
- Continue to look for opportunities to save on energy costs.
- Work with Procurement to ensure that open requisitions and POs that are no longer needed are closed in a timely manner in order to release encumbered funds.

Capital Savings:

- Review, re-estimate and re-prioritize existing capital projects. By no means am I suggesting to defer capital projects. However, you should revisit your capital timelines particularly projects that may be delayed as a result of the COVID crisis and adjust accordingly.

As a next step, the Office of Budget & Performance Management staff will:

- Finalize analysis of the City's Enterprise and Internal Service Funds. A separate memo and report will be provided for those funds.
- Continue to actively engage in discussions and webinars with finance professionals regarding the impact of COVID-19 on local governments.
- Continue to work with City Departments to track operating activities and revenues.
- Continue to research best practices, analyze financial data and report our findings to the City Manager's Office on a routine basis.

Attachments