



DATE: September 29, 2020
TO: Mayor and City Council
FROM: Director of Finance
SUBJECT: FY 2020 Preliminary Unaudited General Fund Financial Review

RECOMMENDATION

That the City Council reviews and comments on the FY 2020 Preliminary Unaudited General Fund Financial report.

SUMMARY

This report presents an overview of the unaudited FY 2020 Year-End General Fund and provides preliminary results of the City's General Fund financial picture at the close of FY 2020. The City is currently in the process of completing the FY 2020 financial audit for the period ending June 30, 2020 (FY 2020).

BACKGROUND

Staff is currently working with the City's external auditor (Maze and Associates) to develop and finalize financial statements for the period ending June 30, 2020 (FY 2020). The results of the audit and the FY 2020 Comprehensive Annual Financial Report (CAFR) will be presented to the Budget & Finance Committee once the audit process has been completed, likely in December 2020. This report contains preliminary year-end results for the General Fund. Please note that the amounts conveyed in this report may change through the audit process and any adjustments the audit requires.

The City Council adopted the FY 2020 Operating Budget on May 21, 2020, projecting a General Fund use of General Fund Reserves of \$0.9 million. During the mid-year process, the modified budget reflected an increase in the projected use of \$1.9 million in General Fund Reserves. In March 2020, the unanticipated onset of the COVID-19 pandemic projected significant financial impacts on several key revenue sources. The subsequent months included regular financial reports to the City Council providing cash flow updates, including updated revenue projections and expenditure reduction strategies. At that time, staff projected a significant use of \$11.8 million in General Fund Reserves for FY2020.

DISCUSSION

Current FY 2020 preliminary year-end review indicates that the General Fund will end with a negative balance resulting in a use of \$5.7 million of Reserves (Attachment II). While preliminary year-end financials indicate that the City will end the year with a negative balance, this is an improvement over the revised projected use of General Fund Reserves presented to Council in late spring 2020.

Revenues

Initial revenue projections for FY 2020 were appropriately conservative at the time the budget was prepared and could not predict the unforeseen pandemic that has impacted the City, and nation as a whole. During the mid-year process, the City began to see some increase in revenue projections, and provided budget updates with recommended adjustments. Unfortunately, the pandemic hit the City and the nation in March, well after revenue projection updates were recommended to Council during the mid-year review.

While revenue projections were analyzed and updated to reflect the potential impacts of the pandemic on key City revenue streams, this report reflects a review of actual revenues collected through June 30, 2020. A detailed review of General Fund key revenue sources are as follows:

Property Tax – Preliminary Property Tax revenue results total \$58.4 million, which is \$1.5 million higher than the revised FY 2020 Mid-Year review projection of \$56.9 million (2.6%).

Sales & Use Tax – Sales tax revenues came in above FY 2020 Mid-Year projections by \$4.3 million (12.18%). The increase is primarily attributed to the one-time impacts of the South Dakota vs. Wayfair decision. On June 21, 2018, the Supreme Court of the United States ruled in favor of the state of South Dakota vs. Wayfair, Inc. The decision overruled a longstanding physical presence rule, allowing states to require remote sellers to collect and remit sales tax. Revenue projections from the ruling were not included in the FY 2020 Mid-Year projection.

It should be noted that while the pandemic has had a significant impact on retail and restaurant industries, there is a delay in the remittance of sales tax receipts. Impacts to the City's Sales Tax will be appear well into FY 2021.

Utility Users Tax (UUT) – UUT ended the year at \$16.1 million, a decrease of \$2 million over the revised projected amount of \$18.1 million.

Real Property Transfer Tax (RPTT) – RPTT came in below FY 2020 Mid-year projections by \$3.3 million (-21.61%). While the passage of Measure T positively impacted future revenue projections, the current economic uncertainties related to the COVID-19 pandemic are projected to significantly impact this revenue source.

Transient Occupancy Tax (TOT) - Impacted by the pandemic, the TOT revenue came in below the FY 2020 Mid-Year projection by \$0.4 million (-15.89%).

Permits & Fees – Due to the significant impact of the pandemic on the construction industry, the City will end the year \$1.9 million below what was projected during the FY 2020 Mid-Year review – a decline of 20.4%.

Overall, the City will end the year below the FY 2020 Mid-Year revenue projections by \$3.0 million.

Expenses

Overall General Fund expenditures fell below mid-year projections with net savings of approximately \$6.7 million or -3.7%. The significant decrease in expenditures is primarily attributed to a number of expenditure reduction strategies implemented to sustain General Fund cash flow during the onset of the pandemic and the uncertainties surrounding impacts to key revenue streams.

Net Staffing Expense – Overall salaries and benefits were below projections by \$1.6 million (-1.2%).

Several factors contribute to this savings:

- position vacancies
- medical premium savings resulting from employee cost sharing and plan changes reducing plan costs
- reduction in transfers to medical retiree benefit fund

Overtime expense totaled \$8.8 million and is primarily the result of mutual aid response to state and national disasters. A significant portion of costs related to mutual aid response are directly offset by reimbursements received by the General Fund.

Non-personnel Expenses – this expenditure category realized savings of \$5.1 million (-10.6%). The significant decrease is attributed to cost reduction strategies to ensure appropriate General Fund cash flow through the of the fiscal year. Those strategies included a reduction in transfers from the General Fund to Other Funds, such as capital projects, debt service, and internal service fees. Other expenditure savings are considered deferred expenses, with these expenditures deferred to FY 2021 for pending contracts and appropriated grant funds not yet expended.

Revenue Comparison Trends

The City continues to monitor the financial impacts of the pandemic on the City's key revenue sources. In an effort to analyze impacts, the table below provides a comparison of revenue received during the noted months to provide a comparison in revenue trends for FY 2019 and FY 2020 for the same time periods (March-July). The table provides a summary of the General Fund's key revenue sources: Property Tax, Sales Tax, Real Property Transfer Tax (RPTT), and UUT. Additionally, Measure C Sales Tax is included for comparison and trending purposes.

Table 1: Revenue Comparison Trends

	FY 2019	FY 2020
	March - July	March - July
	TOTALS	TOTALS
GENERAL FUND		
Property Tax	\$ (26,777,009)	\$ (28,809,135)
Sales Tax	\$ (11,062,287)	\$ (10,649,368)
Real Property Transfer Tax (RPTT)	\$ (5,063,263)	\$ (1,522,709)
Utility User Tax (UUT)	\$ (4,809,138)	\$ (4,825,357)
MEASURE C SALES TAX	\$ (5,359,861)	\$ (5,320,590)
TOTAL REVENUE	\$ (53,071,559)	\$ (51,127,158)

As shown in Table 1, impacts of the pandemic have resulted in lower revenue in Sales Tax, and Real Property Transfers Tax. As the uncertainties surrounding impacts of the pandemic are still not entirely known, staff will continue to monitor revenues and present Council with regular updates on current revenue trends.

STRATEGIC ROADMAP

This agenda item supports the Strategic Priority of Organizational Health.

FISCAL IMPACT

This is an informational report with no direct fiscal impacts.

NEXT STEPS

Staff will present the FY 2020 Comprehensive Annual Financial Report (CAFR) to City Council upon conclusion of the annual audit in early 2021. Staff will continue to monitor revenue trends and present updates to City Council.

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Approved by:



Kelly McAdoo, City Manager