ITEM #10B

MEMORANDUM

TO: Timothy J. Baroody, City Manager
FROM: Mark Whitley, Assistant City Manager
RE: Amending FY 2020 Budget to Recognize Revenue for Various Purposes
DATE: March 10, 2020 (for the March 10 Council Meeting)

ISSUE

Shall the City Council amend the FY 2020 Budget to recognize additional revenue and allocate it to the General Fund contingency and various purposes?

RECOMMENDATION

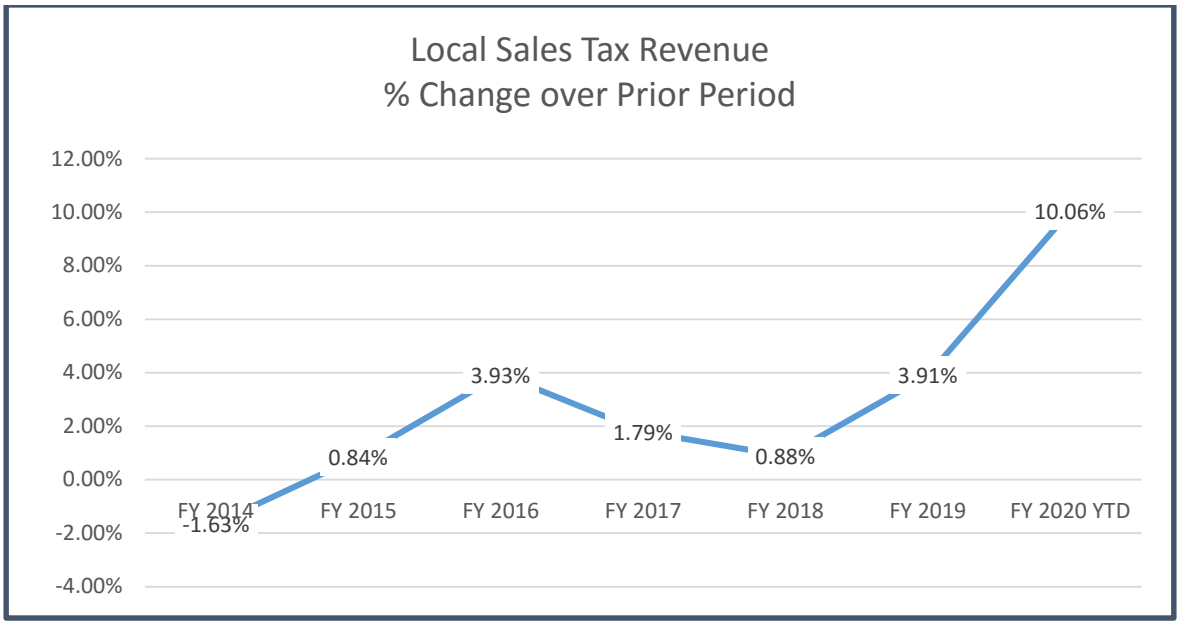
Yes. Staff recommends that the City Council approve the attached resolution, on first reading. The resolution will require two readings for final approval.

BACKGROUND

The City of Fredericksburg has experienced an increase in growth in sales tax revenue over the past eighteen months – particularly so in the last three months of FY 2019 and the first six months of FY 2020.

The average growth in the sales tax from FY 2014 to FY 2018 was fairly slow, averaging 1.16% per year over that time frame, and varying between negative 1.63% and a positive 3.93%. The sales tax in FY 2019 totaled $11,925,147, and grew a total of 3.91% over FY 2018's final receipts of $11,476,687. However, the last three months of FY 2019 increased 6.29% over the last three months of FY 2018.

That trend of increased receipts has only increased in FY 2020, with an average of 10.06% growth in receipts over the first six months of FY 2019. Sales tax receipts are on pace at this point to exceed the budget estimate for FY 2020, which is $11,700,000, by a substantial amount. This should be true even if the economy slowed significantly from this point to the end of the fiscal year.



The attached resolution proposes to recognize $600,000 of additional sales tax revenue, which would raise the sales tax budget forecast for FY 2020 to a total of $12,300,000. The proposed uses of these funds is as follows:

1) Increase the General Fund Contingency by $200,000. The City has amended the budget for FY 2020 several times in the last few months, notably to add positions during the mid-year and to respond to a need to increase public safety compensation, and the General Fund Contingency in FY 2020 is now at $20,910. The staff recommends adding this amount to Contingency to preserve the ability to meet unexpected expenditures for the final four months of this fiscal year.
2) Decrease the use of the Jail Stabilization Reserve by $200,000. The FY 2020 budget used $635,000 of the Jail Stabilization Reserve to help offset increases in costs for the detention centers in the FY 2020 budget, in accordance with the policy governing this reserve. This will reduce the potential use of the Jail Stabilization Reserve to $435,000 in the current fiscal year.
3) Decrease the use of the Fund Balance assigned for Capital by $200,000. The City budgeted the use of $3,023,000 in fund balance assigned for capital in the FY 2020 budget. This action would reduce the potential use of the Fund Balance assigned for Capital to $2,823,000.

The Jail Stabilization Reserve policy would require a contribution to the Jail Reserve in FY 2021 based on the fact that the contribution to those facilities for the City are recommended to decrease in FY 2021. The FY 2021 contribution is $226,978 lower than the required contribution for FY 2020, which would normally require that the City set aside $113,489 in FY 2021 to add to this reserve. The staff proposes that this use of sales tax revenue in FY 2020 offset the FY 2021 required contribution, which helps to balance the FY 2021 budget.

FISCAL IMPACT

None of the three uses of the sales tax revenues create additional expenditures – the Contingency could be expended later, if the need arose, while the reduction of fund balance usage will preserve those resources for future fiscal years.

If the attached resolution is approved, the General Fund Contingency will become $220,910.

The table below shows the impact of the use of the sales tax revenue to offset the use of fund balance in the attached resolution.

	Jail Stabilization Reserve	Assigned for Future Capital
FY 2019 EOY	1,571,004	5,188,550
FY 2020 Original Budgeted Use	(640,000)	(3,023,000)
Original Minimum Remaining FY 2020	931,004	2,165,550
FY 2020 Amended Budgeted Use	(440,000)	(2,823,000)
Amended Minimum Remaining FY 2020	1,131,004	2,365,550

It is important to remember that the actual use of fund balance depends upon the final results of the fiscal year – the actual revenues and the actual expenditures. If actual revenues exceed the budget forecast, and actual expenditures are less than budgeted, then less fund balance will be used than planned.

cc: Robyn Shugart, Director of Finance

MOTION:

SECOND:

March 10, 2020
Regular Meeting
Resolution 20-__

RE: **Amending the Fiscal Year 2020 Budget to Increase the Forecast for Local Option Sales Tax Revenue to Increase General Fund Contingency and Decrease the Budget for Use of Fund Balance**

ACTION: **APPROVED: Ayes: 0; Nays: 0**

The City of Fredericksburg receives funds collected by the Commonwealth for the local option sales and use tax. These revenues have increased in recent months, and are on track to exceed the budget forecast for this revenue.

The City needs to add funds to the General Fund Contingency to allow for any further contingencies for the remainder of FY 2020. The City Council also wishes to utilize a portion of the sales tax revenue to decrease the planned uses of fund balance in the General Fund for capital projects and for jail stabilization.

Therefore, the City Council hereby resolves that the following appropriation amending the FY 2020 budget be recorded:

GENERAL FUND (FUND 0100)

Source			
Local Sales and Use Tax			
Local Sales and Use Tax	0100-312010	$	600,000
Department Total:		$	600,000
Total Source:		**$**	**600,000**
Use			
Contingency			
General Fund Contingency	0100-499100	$	200,000
Department Total:		$	200,000
Fund Balance			
Committed for Future City Capital	0100-361012	$	200,000
Assigned for Detention Stabilization	0100-361030		200,000
Department Total:		$	400,000
Total Use:		**$**	**600,000**

Votes:
Ayes:
Nays:

Absent from Vote:
Absent from Meeting:

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Clerk's Certificate

I certify that I am Clerk of Council of the City of Fredericksburg, Virginia, and that the foregoing is a true copy of Resolution No. 20-xx, adopted at a meeting of the City Council held _____2020, at which a quorum was present and voted.

_____

Tonya B. Lacey, MMC
Clerk of Council