



MEMORANDUM

TO: Timothy J. Baroody, City Manager
FROM: Mark Whitley, Assistant City Manager
Brenna Erford, Budget Manager
RE: Budget Update and Options for FY 2020, and Revised Budget Calendar for FY 2021
DATE: April 6, 2020

OVERVIEW

This memorandum is to brief City Council on the revised revenue outlook of the City, provide an update as to the FY 2020 budget, and offer some potential ideas for reductions in FY 2020. The memorandum also proposes a revision to the budget calendar for FY 2021.

REVENUE OUTLOOK

Numerous industries dependent on both consumption expenditure and social interaction have been effectively shuttered as a result of measures intended to slow the speed of the pandemic's spread, which is creating a cascading effect throughout the economy. After property taxes, the City's most significant sources of revenue are heavily dependent on consumption expenditure; for this and other reasons, City staff anticipate a significant contraction in revenue collections in the final quarter of the current fiscal year (April – June) which will continue into the new fiscal year. The duration of shelter-in-place directives and the relative success or failure of public health measures to slow the spread of COVID-19 are entirely unknowable; as a result, City staff has developed a range of assumptions and forecasts that will be continually revised as more information becomes available.

In the following forecast, “primary impacted tax sources” are City taxes that have a direct relationship to consumption expenditure. The forecast presents two major scenarios for revenues (“shelter-in-place” and “moderate restrictions”) each containing three levels of severity (“mild,” “moderate,” and “severe”). The shelter-in-place scenario assumes current-type conditions with populations subject to restrictions on movement and widespread business closures; the moderate restrictions scenarios assumes relatively less restricted local movement by populations but not full normal economic activity.

Tax Base	Revenue Scenario Criteria					
	SHELTER-IN-PLACE (SIP)			MODERATE RESTRICTIONS		
Sensitivity	Mild	Moderate	Severe	Mild	Moderate	Severe
High	50%	70%	85%	30%	40%	50%
Moderate	15%	20%	25%	15%	20%	25%
Low	5%	10%	15%	5%	10%	15%

“Tax base sensitivity” maps to how severe staff anticipates a given revenue source will contract under a certain scenario; for example, meals tax, hotel lodging tax, and amusements tax have “high” tax base sensitivity under either scenario due to how the economic activities that drive collections are restricted by public health mitigation efforts. However, the local sales tax base captures a broader share of cross-industry business transactions than are captured in other local primary impacted tax sources, and our forecast of its contraction under these scenarios is calculated with respect to the industry composition of taxable sales in its base.

Under these assumptions, and factoring in the one-month lag between economic activity and tax collection for local consumption taxes and a two-month lag for local sales tax, City staff anticipates a minimum of \$4 million in current year revenue shortfall from primary impacted sources alone.

	OVERALL SALES TAX CONTRACTION		
	Mild	Likely	Severe
Shelter-in-Place	67.4%	59.7%	53.2%
Moderate Restrictions	81.9%	75.7%	69.6%

Tax Collection Month	FY 2020				FY 2020 Cumulative	
	March	April	May	June		% of
Sales Tax: Month of Economic Activity	January	February	March	April		
Other Taxes: Month of Economic Activity	February	March	April	May		
Revenue Forecast Scenario & Magnitude						
for Sales Tax	no impact	no impact	mild SIP	severe SIP		
For Other Taxes	no impact	mild SIP	severe SIP	severe SIP	nominal	budgeted
Local Sales Tax \$	941,667	941,667	634,781	500,501	9,610,282	85.0%
Meals Tax \$	1,037,500	518,750	155,625	155,625	10,167,500	81.7%
Lodging Tax \$	129,167	64,583	19,375	19,375	1,265,833.33	81.7%
Amusements Tax \$	42,917	21,458	6,438	6,438	420,583.33	81.7%
Subtotal, Primary Impacted Sources \$	2,151,250	1,546,458	816,219	681,938	21,464,199	83.1%
Total budgeted FY 2020 General Fund \$					101,774,075	
Total budgeted General Fund Revenues \$					96,445,693	
Total budgeted General Fund Balance \$					5,328,382	
Tax Loss (nominal, from all primary impacted tax sources) \$					4,350,801	
Tax Loss (% of total budgeted FY 2020 General Fund Revenues					4.5%	
Tax Loss (% of total budgeted FY 2020 Budget					4.3%	

This is not the total potential revenue shortfall; it is just one part of it. Over the past two weeks, over 10 million Americans have filed for unemployment benefits across the nation, indicating the onset of a severe recession whose duration cannot be estimated at the current time. Continued federal and state policy responses will exercise a tremendous impact on these economic conditions, as will the pace of the COVID-19 virus’ spread and the severity of its impact on communities. Depending on the depth and duration of unemployment in our community, City staff estimates we could see between an additional 2 to 4 percent - \$2 to \$4 million – in current year revenue losses from other major sources as a result of potential widespread insolvency and business closures caused by the pandemic.

In total, City staff advises we prepare budget reduction options in line with a revenue shortfall scenario ranging from \$4 to \$8 million in FY 2020. At present the magnitude of FY 2021 revenue losses can’t be forecasted with any reliability; however, it would be prudent to identify from \$10 to \$15 million in spending reductions and deferrals that will hopefully be avoided through delivery of significant intergovernmental aid.

FY 2020 BUDGET STATUS AND PROPOSED REDUCTIONS

The current General Fund for FY 2020, as amended, stands at \$101,774,075, with General Fund revenues forecasted at \$96,445,693 and budgeted use of fund balance at \$5,328,382 – most of which is represented by \$3,523,000 of Fund Balance Assigned to Capital that was transferred for one-time capital projects.¹ Again, the City relies heavily on meals taxes, sales taxes, lodging taxes, and other taxes that are heavily impacted by the current pandemic.

The Budget Manager indicates that the City should plan on a range of lower-than-budgeted revenues in the \$4 to \$8 million range based on current economic indicators. An estimated target for revenue for FY 2020 is \$90 million – pending additional information via City revenue collections over the next one to two months. During that time the City will also learn more about possible increases in federal assistance and state budget actions that affect the City's operational and capital outlook.

The City has received \$60.1 million in General Fund revenue to date in the current fiscal year. That amount does not include the second installment of the City's biannual real estate and personal property taxes or the last quarter of excise taxes and state aid payments for urban street maintenance.

The extent to which actual expenditures exceed actual revenues received will be the reduction in General Fund balance for FY 2020. In the short run, the City must take action to reduce the actual use of fund balance given the potential reduction of fund balance in the General Fund, which means the City must reduce total expenditures. Staff strongly recommends early action so that the majority of the City's fund balance can be reserved for potential use in FY 2021, when it is possible the City may sustain deeper revenue losses depending on the duration and severity of the pandemic and public health mitigation measures to slow its spread.

The attached table includes approximately \$2.5 million in difficult reductions for the City's main operations in the General Fund. This table is a beginning effort, and staff wished to advise City Council of these efforts and receive advice and direction.

Staff will continue to evaluate and propose additional reductions for FY 2020 - in order to close the potential \$4 to \$8 million gap between forecasted revenues and currently budgeted expenditures. These options have been assembled with attention to the necessity and continuity of vital public services, including critical infrastructure and public safety. They have also been considered in light of evolving information about federal aid. This list will be expanded and revised as more information becomes available.

In order to meet these reduction targets, the City will need to evaluate potential reductions in capital spending as well as various enterprise funds. Transit is already undergoing service reductions related to the health situation and the lack of ridership. Water and sewer funds will see some amount of revenue loss as major customers such as restaurants and hotels reduce their usage. City staff will continue to evaluate these funds and bring forward additional ideas to maintain the solvency of our various enterprises.

¹ Other uses of fund balance include contingency, jail stabilization, and a share representing encumbrances and carry-over activity in the General Fund.

The following current year budget reduction options are offered for consideration:

Initial Proposed Reductions for FY 2020 – General Fund

FY 2020 Proposed Reduction	Amount	Description
Reduce Transfer to Schools	\$500,000	
Eliminate Small Area Plan Process	\$300,000	Reverse Transfer to Capital
Reduce Library Payment	\$200,000	Will need to advise Library Board and request them to reduce their local support in FY 2020
Personnel	\$400,000	About ½ of a payroll (wages only) for FT General Fund. This is a target for various types of actions, including hiring freeze, pay reductions, and staffing reductions.
No Buffet Pool CY 2020	\$30,000	Would also provide savings in FY 2021
Regional Jail	\$50,000	This would be a deferral - coupled with a request to the Jail Authority to reduce their requested support from their local partners for FY 2020 and FY 2021. Jail remains open and necessary so savings will be limited.
Reduce Additional Transfer to Capital	\$1,000,000	Interim target – will need to increase.
Reduce Transfer to DSS	\$100,000	May require personnel reductions
Reduce Transfer to CSA	\$100,000	May have some ability to reduce payments to providers if services are not rendered
Subtotal	\$2,680,000	

Reductions via Freeze

FY 2020 Proposed Reduction	Amount	Description
Freeze PW Snow Removal Budget	\$100,000	No action needed
Freeze & Capture RJC Savings	\$100,000	No action needed

Reductions difficult to estimate

No Motts Marina CY 2020	TBD	Additional work needed to estimate – lost revenue minimizes savings in FY 2020
PRE – No Spring Sports Season	TBD	No action needed at this time
Operating Line Item Savings	TBD	Target at least \$200,000 – items such as reduce fuel expenditures, suspend cleaning contracts for CRRL, eliminate travel for April – June, etc.

REVISED BUDGET CALENDAR

Given recent events, City staff propose the following revised budget calendar:

FY 2021 Budget Calendar				
Date*	Time	Session	Topic	Location in Fredericksburg City Hall*
Tuesday, March 10, 2020	7:30 p.m.	Regular Session	City Manager's Recommended Budget Presented to City Council	City Council Chambers
Tuesday, April 14, 2020	6:00 p.m.	Budget Work Session		Suite, Room 218
Tuesday, April 21, 2020	No Public Hearing as previously scheduled			City Council Chambers
Tuesday, April 28, 2020	7:30 p.m.	Budget Work Session		City Council Chambers
Tuesday, May 12, 2020	7:30 p.m.	1st and 2nd read of the School Budget	First Reading of the City Budget	City Council Chambers
Friday, May 15, 2020	Constitutional Deadline for Passing School Budget			Code of Virginia § 22.1-93
Tuesday, May 26, 2020	7:30 p.m.	2nd read for City Budget	Second Reading of the City Budget	City Council Chambers
Tuesday, June 30, 2020	Deadline for CIP, City Budget, and Tax Rate			
<i>*All dates and locations are subject to change. City Hall is located at 715 Princess Anne Street</i>				