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OFFICE OF THE CITY ADMINISTRATOR

TO: Mayor & City Council
Date: April 20th, 2020
RE: COVID 19 Pandemic – Financial Projections

Since the onset of the COVID-19 Pandemic, the City has aggressively worked to develop plans and strategies in response to the community health crisis and as an employer. The purpose of this memo is to update and provide information as to the “current” financial status of the City, and to share additional recommendations.

It should be clear that the financial impacts of this crisis have yet to be experienced by the City and the duration of the event is yet to be defined. The City’s sales tax revenues lag by at least two months, utility taxes can lag as much as a full quarter, and intergovernmental taxes may be received annually. To further complicate the issue, many businesses are closed and tax reporting may be delayed or non-existent. As such, this information and the associated strategies are extremely fluid, are continuously adjusted and subject to regular revision. We simply cannot afford to wait until we have solid information to report. It is imperative that we provide early projections such that the City is in the best position to recover. Again, consider this information as a point in time analysis, which will be reviewed and updated on a regular basis as community decisions are known and additional information synthesized.

I’ve attached three appendices. The first document is the updated spreadsheet which provides the estimated revenue losses associated with the pandemic event. This is the same document you were previously provided, but with actual updated April sales tax numbers. As with the previous version, this document estimates revenue losses for four scenarios, each representing an economic closure duration between 30 and 120 days. Obviously, we have already experienced the 30-day closure. While discussions have begun regarding re-opening businesses, no definitive date or plan has been presented. At this juncture, our estimates suggest that a 60, to 90-day scenario is most

likely. Again, that is subject to change, but it will be the basis for this communication.

The second document is a linear presentation of the General Fund – Fund Balance estimates, based on the 2019 End of Year Fund Balance. While this document looks complex, it is a sequential presentation of the fund balance results, under various scenarios. This communication will step through the analysis for the 60, and 90-day scenarios.

The third document provides definition for specific programs or line items where staff proposes to reduce expenditures. This document is not intended to be comprehensive, but descriptive of the overall intent and expectations.

Per the 2020 budget document, the 2019 end of year fund balance was projected to be \$9,174,018. However, at the last meeting of the year, City Council authorized a budget transfer of \$415,000 to partially fund synthetic turf installation at the CVAC.

The 2020 approved budget, reflected \$1,656,896 net positive revenues over expenditures, resulting in a projected end of year 2020 fund balance of \$10,415,914.

Of that amount, \$133,830 is restricted, for public safety purposes, so the balance available is reduced accordingly, although that money remains in the fund balance.

Council also approved fund transfers in the amount of \$1,816,000 for:

- Emerald Ash Borer program
- Snow Removal reimbursement,
- Brandywine NID

Council also approved additional net revenues for 2020 in the amount of \$15,931, associated with the consolidation of the Clarkson Valley municipal court.

As you also know, the City has previously financed the Broadmoor and Chesterfield Hills NIDs, providing future receivables in the amount of \$1,418,277. However, only \$85,634 will be recognized as revenue during 2020.

Finally, although initially a liability \$1,090,000, we anticipate that the Brandywine NID project will be completed this construction season and the

City will issue the Brandywine NID debt in that same amount to make it a net zero transaction.

NOTE: It is critically important to acknowledge that the following calculations of Fund Reserve percentages continue to be based on the original 2020 budget values. If these calculations were adjusted for the proposed, reduced 2020 budget which reflect the proposed reduced expenditures, the associated percentage of reserve funds would increase proportionally.

This results in a 2020 end of year projected fund balance, pre-pandemic, and pre-land purchase, of \$9,925,309, or 50.99% of the GF budget, including transfers. This does not include the non-liquid future NID reimbursements. When those are included, **the balance increases to \$11,257,952, 57.84% of the GF. This is the number that we have traditionally used as the 40% policy threshold.** It should also be recognized that this value does not include the \$5,530,546 set aside for debt pre-payment.

From this point, we consider the various alternatives and potential losses.

Pandemic Loss Projections

Referring to document one, our 60 day and 90-day projected losses are estimated at \$6.1 to \$7.6 million, respectively. The result of those losses on our Fund Reserve drops the Fund Balance to \$5,084,695 (26.12%) or \$3,611,122 (18.55%) respectively. These balances do not include the pre-paid debt assets that Council has designated for early payment of existing debt. This, in and of itself is mis-leading, because the pre-paid debt is unrestricted and remains available in an emergency. These funds have just been placed in a holding fund, but can be accessed at any time. While designated, these funds are not restricted and are part of our Fund Reserves. So, for the sake of full understanding, know that the **pre-paid debt actually increases the available fund balance by 28.41%, all by itself**, increasing the fund balance to 54.54% or 46.97% after the 60 or 90-day pandemic losses are realized.

Expense Reductions

As previously discussed, Staff has implemented and continues to identify expenses that can be deferred and delayed. As with the estimated losses, this is a fluid analysis and will be very dependent on decisions that will be made in the immediate future. These numbers will be impacted by our decisions, amongst others, as to whether we open the aquatic center and whether or not we elect to cancel our Independence Day celebration. It should also be clear, that these reductions certainly impact the level of service, programs, and response provided by the City. It should be apparent that there is no feasible

way to reduce expenditures at this proportion without noticeable temporary reductions in service and appearance.

For the purposes of this analysis, the expense reductions are comprised of delays, deferrals, activity reductions, service reductions, and cancellations. These numbers will certainly change and hopefully increase as we continue to fine tune, and the aforementioned decisions are made. In addition, if we do ultimately qualify for any reimbursements, the bottom line improves directly. For the purposes of this analysis, it is a conservative place to start. After recognizing the pandemic losses, and including the reduction in expenses, the estimated fund reserve balances are projected to be \$8,030,448 (41.26%) or \$6,556,875 (33.69%) for the 60, and 90-day events respectively. For the sake of completeness, these balances are increased by the inclusion of the pre-paid debt respectively, \$13,560,994 (69.67%) or \$12,087,421 (62.10%).

It is our intent to delay\defer the following projects from the capital projects fund:

- a. Crack Sealing Project - \$75,000
- b. Three 2 ½ ton Truck Purchases - \$420,000
- c. HVAC Piping Replacement at City Hall - \$50,000
- d. Isolated Asphalt Overlay - \$75,000
- e. Wild Horse Parkway Bridge Concrete Overlay - \$350,000
- f. Public Works Facility Feasibility Study - \$30,000

We intend to proceed with the following existing and proposed capital projects:

- a. Slab Replacement Projects A & B
- b. Sidewalk Project A
- c. Sidewalk Project B
- g. Schoettler Road Improvement Project
- h. Old Chesterfield Road
- i. Public Works Facility Roof

In consultation with our Parks, Recreation and Arts Department, **we now recommend that City DOES NOT open its aquatic Facility at any time during 2020.** It is simply too costly to accomplish the repairs, open, and with the extended stay at home order, we can't train the lifeguards, the season will be shortened causing an increasing operational deficit.

We also **recommend that the City cancel the annual July 4th, Independence Day celebration.** It will be impossible to provide the festivities, with a band, food vendors, child play area, and spectator seating while

maintaining social distancing. Even if we elected to proceed, a large proportion of the community will likely refrain from participating.

The Parks, Recreation and Arts Department will selectively reduce (not eliminate) programming, and maintenance activities. We will plant, mow, irrigate and trim less. We will maintain all of the areas we currently maintain, but the standard of care and overall appearance will be temporarily reduced. The spring planting season has already been impacted, but our intent is simply to preserve and re-start during 2021. Our focus will be maintaining our high traffic\use areas, while reducing the frequency of care in less intensely used areas. We will delay opening the water features at Dierberg Park and the Veterans Honor Park until after the stay at home order has been lifted. The Community Gardens may remain closed for 2020, depending on the date the stay at home order is lifted. We will eliminate the routine art receptions at City Hall.

We continue to believe that there will be a summer athletic season at the athletic complex. However, we will adjust operations and concessions accordingly. It is our intent to reduce our concession locations, menu, and staffing to reduce costs. We will limit our seasonal maintenance and concession staffing, temporarily relying on other full-time staff during the interim.

The City's finances will be closely monitored, and the other three projects may be stopped if necessary. That is NOT expected at this time, but remains a possibility.

Parks Land Purchase

Per Council's instructions, we are proceeding with the City's due diligence to purchase the ~8 acres of parkland. Per the original purchase strategy, this will consume \$4 million of the General Fund – Fund Reserves. In turn, that impacts the General Fund – Fund Balance as well. **That reduces the projected end of year Fund Balance to \$4,030,448 (20.71%) or \$2,556,875 (13.14%).**

However, please note that these figures do not include the \$5.53 million of pre-paid debt set aside, which is available should conditions warrant.

When **only** the City Hall pre-paid debt reserve is included, the projected fund balance is \$6,605,167 (33.93%) or \$5,131,594 (26.36%) respectively for the 60 and 90-day event scenarios.

When the entire pre-paid debt reserve is included, the projected fund balance is \$9,625,319 (49.45%) or \$8,151,746 (41.88%) respectively for the 60 and 90-day event scenarios. The spreadsheet also calculates the value in these scenarios without the non-liquid future NID reimbursements, just for informational and convenience purposes. While these are certainly legitimate assets, they cannot be converted to cash for short term purposes.

Conclusion

This is a “point in time” analysis and will change continuously as the duration and impacts of the COVID 19 pandemic become known. While there are multiple potential opportunities for financial assistance, there are no current commitments for such. Accordingly, our analysis is not predicated upon any governmental reimbursement. Should such assistance develop, our analysis will only improve. The City’s robust Fund Reserve and fiscal conservancy has positioned the City to survive and resume operations at the cessation of this crisis. However, we should all remain aware that while this analysis demonstrates that the City is able to maintain a positive Fund Balance, we all have to be aware of annual demands on the fund balance. Specifically, the Fund Balance is drawn down each year by the snow removal recoupment program (~\$166,000 in 2020) and we have two remaining years of the Emerald Ash Borer program to eradicate and eliminate our liability for ash trees within the right of way (~\$560,000 in 2020). We are also keenly aware of legislative efforts to reduce the City’s video franchise fee revenues, albeit not likely to occur in 2020.

Accordingly, future budgets will have to be prepared with an understanding of the potential impact on revenues, expenditures, and with a planned strategy to re-build the fund reserve, perhaps within a 5-year interval. It is unlikely, given the potential losses, both temporary and permanent, that we will likely be able to do so any quicker.

Summary

As of the date of this communication, the County has extended the Stay at Home order indefinitely.

THERE IS A VIABLE PATH OUT. A reasonable strategy that allows the City to survive the pandemic, come out of the crisis and continue with the parks land purchase with positive but diminished fund reserves.

Based on our analysis, we will continue to identify reductions in expenses.

Unless directed otherwise, Staff will continue along this path. Within the next few weeks, we will update the information provided herein and make additional recommendations with regard to specific programs, events and finances. City Council is scheduled to meet Monday, May 4th, at which time formal action may be taken on such recommendations. At that time, **I request that Council discuss the information contained herein (including subsequent updates, if any) and either affirm the strategy or provide other direction.**