



City Hall, 215 Sycamore St.
Muscatine, IA 52761-3899
(563) 264-1550
Fax (563) 264-0750

FINANCE & RECORDS

MEMO

To: Greg Jenkins, Interim City Administrator
Mayor and Members of City Council

From: Nancy A. Lueck, Finance Director

Date: June 1, 2020

Re: COVID-19 - Updated Estimates of Impacts on City Revenues and Possible Expenditure
Revisions to the FY 20 and FY 21 Budgets

Introduction and Background:

An initial report on the potential impacts on City revenues from the COVID-19 pandemic was reviewed with City Council at the May 14, 2020 In Depth meeting. That report was based on information that was available as of May 13, 2020, and projection assumptions made at that time. While there were several budget items proposed to be deferred to address the projected revenue impacts, no action was taken by City Council at that meeting.

Updated Estimated Revenue Impacts and Assumptions, and Potential Expenditure Reductions/Deferrals:

Attached is updated information on potential impacts from the COVID-19 pandemic on revenues in the FY 20 and FY 21 budgets as well as potential expenditure revisions in response to the estimated revenue impacts. This information is in a different format than what was presented May 14. This new format was also used to submit information to the Iowa League of Cities in response to their request for this information from member cities. The information currently being presented has also been updated to reflect (1) actual revenues through May of this year, (2) the closure of the Aquatic Center for the 2020 calendar year, (3) the most recent hotel/motel tax receipt the City just received for January – March, and (4) additional estimated impacts on the City's enterprise fund revenues.

Attachment Page 1 – This worksheet shows (1) major revenue categories projected to be impacted, shown by fund, (2) the projected impact to the current FY 20 budget and the assumptions used for those estimates (League requested), and (3) the projected impact to the FY 21 budget and the related assumptions for those estimates.

Attachment Page 2 – This worksheet shows potential **expenditure** reductions or deferrals to address the projected revenue shortfalls. While a number of expenditure reductions/deferrals have been listed, the most significant items proposed to be deferred have not changed since May 14 and include:

1. Defer FY 21 Pavement Management program (\$1 million) due to the expected reductions in Road Use Tax and Local Option Sales Tax.
2. Defer hiring the HR Generalist position that was added in the FY 21 budget - \$73,700.
3. Defer hiring the three new firefighter positions that were added in the FY 21 budget - \$234,400.

The expenditure listing reflects the expenditure savings from not opening the Aquatic Center in calendar year 2020. It also continues to reflect the Parks department reducing their expenditures in an amount to offset the overall Park department revenue reductions on Page 1.

Attachment Page 3 – This worksheet shows the updated impact to the General Fund balance based on the assumptions in the schedules on Pages 1 and 2. As noted previously, the City was in a good financial position going into this event, especially due to the General Fund Balance Policy and the balanced budgets in recent years. While there will be an impact on the General Fund, having the policy in place and a strong fund balance, allows time to make necessary budget adjustments as needed.

While assumptions are being made in these worksheets, these assumptions will likely change several times as we move forward. The full impact of COVID-19 will depend on the duration of the impact, and the time it will take to recover economically.

Summary:

The items currently identified for deferral or elimination will assist in maintaining the financial integrity of the City's funds and they will generally not have a direct impact on services the residents expect from the City. That is not to say that service level reductions may not need to be considered as time goes on.

Please include this memo and the attached worksheets on the agenda for the June 4, 2020 meeting. I plan to review the report with City Council. City Council can then consider officially deferring or eliminating budget items as appropriate.

Please contact me if you have any questions or need additional information.

5/29/2020

City of Muscatine
Anticipated Revenue Losses Due to COVID-19
Estimates as of 5/29/20

	FY 2020	Assumptions/Comments	FY 2021	Assumptions/Comments
General Fund:				
Property Taxes	\$ -	Actual FY 20 property tax revenues will be less than budgeted; no long-term impact since the taxes will be paid at some point	\$ -	Actual FY 21 property tax revenues may be less than budgeted due to timing of payments; no long-term impact since the taxes will be paid at some point
Hotel/Motel Tax	185,000	Based on actual for first 3 quarters of year plus minimal amount for April - June	175,000	Assumes reduction of 1/3 from normal revenues
Franchise Fees	114,200	Based on actual for first 3 quarters of fiscal year plus average amount for April - June (reduction may be partially due to mild winter)	51,400	Assumes 10% reduction and a more normal winter
Parks and Recreation Programs	124,700	Of this total, \$69,000 is due to the Aquatic Center not opening in calendar year 2020; also minimal facility rentals April June; and reductions in program fees	115,700	Of this total, \$93,000 is due to the Aquatic Center not opening in calendar year 2020; also expect facility rentals and program fees to be 20% less than normal
Licenses and Permits	100,000	Building permits and fees; based on actual through May plus an estimated 25% reduction from normal June fees	77,500	Building permits and fees; based on an estimated 25% reduction from normal annual permit fees
Other Revenues	21,200	Library fines waived, Art Center building rentals reduced, court fines reduced, fire inspections deferred, etc.	10,000	Interest revenue reductions due to significant decrease in interest rates
Subtotal - General Fund	\$ 545,100		\$ 429,600	Total Both Years is:
				\$ 974,700
Road Use Tax Fund				
Road Use Taxes	\$ 221,500	Based on a 25% reduction for the last 4 months of the fiscal year	\$ 602,600	Based on a 20% reduction for the full fiscal year
Local Option Sales Tax Fund				
Local Option Taxes	\$ 255,000	Based on a 25% reduction for the last 4 months of the fiscal year	\$ 587,400	Based on a 20% reduction for the full fiscal year
Enterprise Funds:				
Transit Fees	\$ 45,600	Transit fixed routes suspended through June; fares waived for call-in services	\$ 34,000	Allowed for 20% reduction in Transit fares for FY 21
Parking Fees	44,800	Actual fiscal year to date thru May plus 25% reduction from a "normal" June	42,000	Allowed for 20% reduction in Parking fees and fines for FY 21
Sewer Fees	50,000	Commercial reduction in April 2020 compared to April 2019 multiplied by 3 months	100,000	Commercial reduction in April 2020 compared to April 2019 multiplied by 6 months
Airport Fuel Commissions	2,500	Actual fiscal year to date plus minimal amounts for May and June	3,200	Assumes reduction of 1/3 from normal revenues
Subtotal Enterprise Funds	\$ 142,900		\$ 179,200	
Totals	\$ 1,164,500		\$ 1,798,800	

City of Muscatine
 Anticipated Expenditure Reductions and Deferrals Due to Revenue Impacts from COVID-19
 Estimates as of 5/29/20

	FY 2020	Assumptions/Comments	FY 2021	Assumptions/Comments
General Fund:				
Aquatic Center Expenditures	\$ 89,200	Assumes balance of budgeted expenditures will be eliminated due to the Aquatic Center not opening in 2020	\$ 100,000	Reduction due to the Aquatic Center not opening in calendar year 2020, this reduction leaves \$86,300 for May and June 2021
Other Parks & Rec Expenditure	35,500	Additional reductions so no net impact from overall Park & Recreation revenue reduction	15,700	Additional reductions so no net impact from overall Park & Recreation revenue reduction
Expected Budget Savings in Legal Services FY 20 Budget	20,000	Based on year-to-date expenditures and estimated additional for May and June		
Expected Budget Savings in FY 20 Library Budget	20,000	Based on year-to-date expenditures and estimated additional for May and June		
Expected Budget Savings in FY 20 Community Development Budget	37,300	Defer hiring the currently vacant Planner I position until after July 1		
Reduction in Current Hotel/Motel Tax Allocation to CVB			46,200	Based on \$185,000 reduction in FY 20 hotel/motel taxes with 25% allocated to CVB (City CVB fund balance can assist with CVB revenue shortfall)
Expected Budget Savings in FY 21 Human Resources Budget			73,700	Defer hiring new HR Generalist position that was added in the FY 21 budget
Expected Budget Savings in FY 21 Fire Department Budget			234,400	Defer hiring 3 new Firefighter positions that were added in the FY 21 budget
Expected Savings in Subsidy to Airport due to CARES Act Funding	35,400	The City received a total of \$69,000 in CARES Act funding to be used for Airport operations which is expected to reduce the subsidy	33,600	The City received a total of \$69,000 in CARES Act funding to be used for Airport operations which is expected to reduce the subsidy
Other -				Can consider merit allocation reduction
Other -				Can consider further deferral of Planner I position in Community Development
Other -				
Other -				
Other -				
Subtotal - General Fund	\$ 237,600		\$ 503,600	Total Both Years Is: \$ 741,000
Road Use Tax Fund				
Road Use Taxes	\$ 100,000	Defer FY 20 allocation for new sidewalks	\$ 512,800	Defer FY 21 Pavement Management and FY 21 Sidewalk Program
Local Option Sales Tax Fund				
Local Option Taxes	\$ 255,000	Reduce West Hill Sewer Allocation (\$204,000) and use Reserve funds to continue project; reduce Pavement Management allocation by \$51,000	\$ 587,400	Reduce West Hill Sewer allocation (\$469,900) and use Reserve funds to continue project; defer Pavement Management project (\$117,500)
Enterprise Funds:				
Transit Fees	To be determined	Cost savings not yet determined. CARES Act funds may assist in funding revenue shortfall	To be determined	Any cost savings not yet determined, CARES Act funds may assist in funding revenue shortfall
Parking Fees	To be determined	There will be some cost savings from deferring hiring the 2nd PT Meter Attendant, amount not yet determined	To be determined	There may be some cost savings from deferring hiring the 2nd PT Meter Attendant; amount not yet determined
Sewer Fees		No cost savings identified		No cost savings identified
Airport Fuel Commissions		No cost savings identified		No cost savings identified
Subtotal Enterprise Funds	\$		\$	
Totals	\$ 592,400		\$ 1,603,800	

General Fund
Fund Statement

	Original Rev. Est. and Budget					PREL. Impact Estimate	
	Actual 2017/2018	Actual 2018/2019	Budget 2019/2020	Revised Estimate 2019/2020	Budget 2020/2021	Revised Estimate 2019/2020	Budget 2020/2021
Beginning Balance, July 1	\$ 4,312,391	\$ 4,742,743	\$ 4,660,341	\$ 4,799,686	\$ 4,737,840	\$ 4,799,686	\$ 4,485,294
Revenues	19,406,504	19,995,706	21,134,911	21,193,754	21,668,294	21,193,754	21,668,294
Impact Estimate for Revenues						(545,100)	(429,600)
Incumbrance Variance	470	699	0	0	0	0	0
Funds Available	\$ 23,719,365	\$ 24,739,148	\$ 25,795,252	\$ 25,993,440	\$ 26,406,134	\$ 25,448,340	\$ 25,723,988
Expenditures	18,976,622	19,939,462	21,114,760	21,255,600	21,663,626	21,255,600	21,663,626
Impact Estimate for Expenditures						(237,400)	(503,600)
Ending Balance, June 30	\$ 4,742,743	\$ 4,799,686	\$ 4,680,492	\$ 4,737,840	\$ 4,742,508	\$ 4,430,140	\$ 4,563,962
Increase (Decrease) in Fund Balance	\$ 430,352	\$ 56,943	\$ 20,151	\$ (61,846)	\$ 4,668	\$ (369,546)	\$ 78,668
Minimum Fund Balance per policy adopted in November, 2013 (16.7% of General Fund Expenditures)	\$ 3,169,000	\$ 3,330,000	\$ 3,526,000	\$ 3,550,000	\$ 3,618,000	\$ 3,510,000	\$ 3,534,000
Amount Over (Under) Fund Balance Policy Minimum of 16.7%	\$ 1,573,743	\$ 1,469,686	\$ 1,154,492	\$ 1,187,840	\$ 1,124,508	\$ 920,140	\$ 1,029,962
Ending Balance as a Percent of General Fund Expenditures	25.0%	24.1%	22.2%	22.3%	21.9%	20.6%	21.1%

Explanation of Increases or Decreases in Fund Balances:

In prior years the City's financial policies provided that the fund balance of the General Fund be at least 10% of expenditures. The Moody's bond rating report in 2008 stated "Moody's considers the 10% level to be relatively narrow, and higher reserve levels may mitigate any unforeseen one-time expenses that may challenge financial operations" With that in mind, City Council has been budgeting for incremental increases in the General Fund balance as part of the budget process in recent years. In November of 2013 the City Council adopted a new General Fund balance policy providing that the minimum fund balance be at least two months of expenditures which is equivalent to 16.7%.