



City Council Staff Report

Subject: COVID-19 Financial Impact & Update

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Department: Budget

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Type of Item: Administrative

Recommendation

The impacts of COVID-19 are akin to a natural disaster, leading to public health safety concerns with reverberating effects throughout the global economy. Similarly, business shutdowns due to prudent social distancing measures are being realized in Utah, Summit County, and Park City.

While the City's operations have already changed in response to the coronavirus, further implementation of the City's recession plan is required to close a **projected General Fund revenue shortfall of \$3.9M in fiscal year 2020**. This shortfall is driven by a combination of lost sales tax and program revenue. Staff recommends Council consider closing the revenue shortfall for FY2020 (2 mos. left) using a balanced approach of implementing rigorous operating expense control measures, deferring, delaying and cancelling non-essential Capital projects and equipment purchases, and utilizing a portion of our emergency reserves.

Going forward, in order to provide a thoughtful framework to evaluate what may prove to be a series of difficult financial decisions (both for the remainder of FY2020, and then FY2021), staff plans to utilize the following budgetary principles to help inform and guide our underlying approach:

- **Fiscal Responsibility**: Transparent local decision-making, conservative economic projections, and resist reactive short-term savings at the expense of long-term prosperity;
- **Commitment & Compassion**: Maintain core local government service commitments - public safety, health and wellbeing, economic opportunity;
- **Shared Sacrifice**: No one group shall bear a disproportionate burden.

Background

Sales Tax comprises approximately 38% of budgeted revenues for the City's General Fund in FY2020, which is the largest source of recurring revenue for the City. At the same time, direct exposure to consumer discretionary spending makes our largest source of revenue also the most vulnerable, particularly when compared to the relatively stable property tax.

Overall, Park City's General and Capital Funds are well positioned to help sustain and augment municipal operations during an economic downturn. In many respects, the City's financial strategy is closely aligned with industry best practices in terms of emergency and reserve funds, and should provide the ability to maintain core services, even in the most dire of circumstances. That being said, the sheer size of economic shock is daunting and the sacrifices will need to be shared across the organization.

Analysis

Concurrent with the Declaration of the City Emergency, the City Manager quickly initiated the City's Recession Plan throughout the organization and among departments. By taking this proactive step early, the Budget Department is prepared to recommend a three step approach that closes the projected FY2020 funding gap, yet preserves service levels and foregoes layoffs for at least the next two months:

- 1. Operating - Reduce Expenditures (\$1.25M)**
 - a. Eliminate non-essential expenditures and seek immediate 5% budget reductions from each department (tuition, supplies, equipment, travel, hiring, merit pay, etc.).

- 2. Capital - Delay & Defer Projects, Utilize Emergency Reserve (\$2M)**
 - a. Generate a minimum of 50% of savings by delaying or deferring capital projects and expenses; generate the other 50% through utilization of emergency CIP Fund balance.
 - b. A list of potential projects to defer is forthcoming at the April 16, 2020, City Council Meeting.

- 3. Emergency Reserves – Utilize Portion of Emergency Fund Balance (\$750k)**
 - a. General Fund balance provides an intentional source of funding relief under stressed financial conditions and has been strategically built up over the better part of the past decade.
 - b. The limited use of this emergency reserve is designed to maintain a significant amount of the balance for future uncertainty that remains for the future fiscal year, or FY2021.

Staff will provide additional analysis and finalize recommendations at the April 16, 2020, City Council Meeting. In addition, on April 16th, staff will begin discussions and potential budgetary options and revenue projections necessary to support next year's budget, or the FY2021 budget.

Exhibits

A – FY2020 (COVID-19) Financial Recession Plan Presentation - PowerPoint