

City Council Staff Report



Subject: Fiscal Year 2021 Budget
Author: Jed Briggs & Erik Daenitz
Department: Budget
Date: May 14, 2020
Type of Item: Administrative

Recommendation

Staff recommends City Council approve the attached ordinance adopting a Revised Budget for FY 2020 and a Tentative Budget for FY 2021 for Park City Municipal Corporation and its related agencies, and authorize the computation of the property tax rate with no tax increase. Over the next several weeks, staff will present various aspects of the budget in detail to Council and the public for consideration. On June 25, 2020, the City Council will hold a final public hearing and adopt the Final FY 2021 Budget.

Over the past few weeks, Council has supported a “provisional” budget strategy for FY 2021 that includes significant operating expense reductions, deferring, delaying and cancelling non-essential capital projects and equipment purchases, and utilizing emergency reserves. The provisional budget is fiscally responsible, maintains core community public service commitments, and shares expenditure reductions across the organization. The FY 2021 provisional budget is built upon an initial, 21% revenue shortfall projection, and will be revisited within 90 days from July 1, 2020, for potential re-adoption and adjustment, once the financial implications of COVID-19 are better understood.

Background

In response to COVID-19, PCMC activated the City’s Recession Plan to quickly impose a series of expenditure reductions necessary to close a projected General Fund revenue shortfall in FY 2020 of \$3.9M. Looking ahead to FY 2021, the Budget Department projects a revenue loss of, at minimum, 21%, **leading to a projected General Fund revenue shortfall of approximately \$8.6M**. The shortfall is driven by a combination of lost sales tax and program revenues associated with the economic impacts of COVID-19.

Overall, Park City’s General and Capital Improvement 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 building up emergency and reserve funds, and should provide the ability to maintain core services, even in the most dire of circumstances.

With regard to budget timelines, staff recommends adopting PCMC’s Tentative Budget on May 14, 2020, with the plan to host a series of budget hearings and updates at every subsequent Council meeting until adopting a final budget on June 25, 2020.

Analysis

The FY 2021 budget was constructed using the following strategy:

GUIDING BUDGETARY PRINCIPLES

A principled and balanced approach:

- **Fiscal responsibility:** Transparent decision-making and revenue projections, and avoid irresponsible cuts to generate short-term savings at the expense of long-term prosperity.
- **Compassion & Commitment:** Maintain PCMC's core commitments, community safety and wellbeing.
- **Shared Sacrifice:** No group should bear a disproportionate burden from this challenge alone.

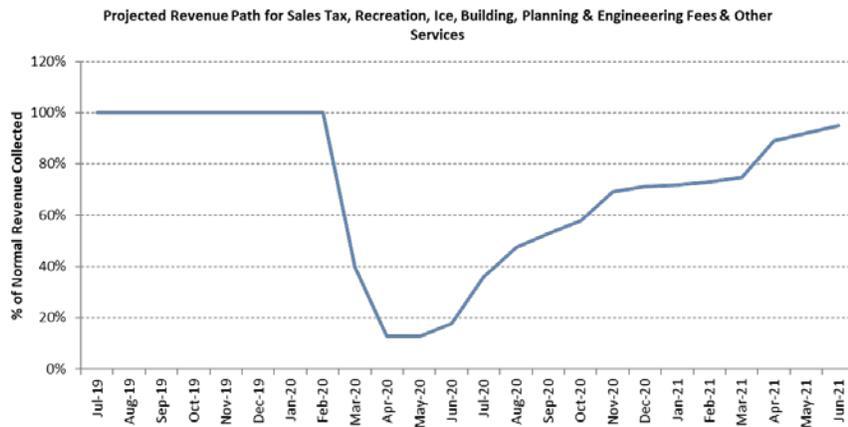
REVENUES

With increased economic uncertainty, projections of FY 2021 municipal revenues remain incredibly difficult to predict. Despite the volatility, projections remain fundamentally necessary in order to inform future expense budgets and public service levels. Generally speaking, staff has assumed a slow return of sales tax revenues as the impacts of COVID-19 decrease over time.

In FY 2021, staff projects a revenue loss of, at minimum, 21%, leading to a General Fund revenue shortfall of approximately \$8.6M.

FY 2021 General Fund Revenue Projections - Summary

Revenue Type	FY 2020 Revenue Budget	FY 2021 Budget - Under Shutdown Conditions	\$, Variance	%, Variance	% of Total Revenue
Property Taxes	\$11,196,658	\$10,412,892	(\$783,766)	-7%	33%
Sales Tax	\$15,231,123	\$9,747,919	(\$5,483,204)	-36%	31%
Franchise Tax	\$3,262,000	\$3,229,380	(\$32,620)	-1%	10%
Licenses	\$312,000	\$324,480	\$12,480	4%	1%
Planning, Building & Engineering Fees	\$2,397,000	\$2,109,360	(\$287,640)	-12%	7%
Recreation	\$2,145,000	\$1,415,700	(\$729,300)	-34%	4%
Other Revenue	\$1,505,227	\$617,143	(\$888,084)	-59%	2%
Ice Revenue	\$872,000	\$619,120	(\$252,880)	-29%	2%
Interfund Transfers	\$2,724,847	\$2,833,841	\$108,994	4%	9%
Intergovernmental Revenues	\$138,000	\$162,840	\$24,840	18%	1%
Total	\$39,783,855	\$31,472,675	(\$8,311,180)	-21%	



Source: Park City Municipal Corporation, 5/14/2020.

EXPENSES

FY 2021 Revenue vs. Expenses

FY 2020 Expense Budget	FY 2021 Revenue Projection	\$, Variance	%, Variance
\$40,049,762	\$31,472,675	(\$8,577,087)	-21%

Every municipal department and division is being asked to implement serious reductions yet, where possible, maintain existing service levels. This is only possible for 90 days, until which time more severe reductions will be necessary, including programmatic cuts and reductions in force. For the time being, PCMC has benefited greatly, particularly in terms of its labor savings, due to the time of year COVID impacts were first felt.

In other words, PCMC was already approaching its “mud season” lower staffing levels, whereby seasonal employees are no longer as necessary, as municipal services contract accordingly with the decrease in demand. This seasonality is generally the case across the organization as a whole. Had it not been for the seasonality, immediate reductions in force would have likely been necessary given the abrupt and drastic impacts of COVID.

Proactively, the City already implemented a broad hiring freeze and suspended recruitments for vacant, full-time positions. Seasonal and part-time positions will not be filled until necessary. For example, the City is currently holding approximately 50-75 summer positions vacant. In addition, overall, the City is operating with approximately 100 less employees than it was at this time last year. The majority of these unfilled positions are in Transit, Ice, general administration, and Recreation. Additionally, the Police Department employs 130 part-time officers exclusively for special events; these positions will not be hired unless the major event schedule is reinstated this summer, and some of those resources are planned as savings

The provisional budget will preserve existing levels of municipal services, for the first 90 days of FY 2021, as planned. Sources of expense reductions and operational controls are listed below:

1. **Operating Expense Reductions & Controls (\$2.9M)** – Deep reductions by each department in non-essential expenditures line items - tuition, training, conferences, supplies, equipment, materials, contract services, merit pay, overtime, and a moratorium on hiring.

FY21 - Proposed Operating Budget Reductions

Expense Type	FY 2020 Expense Budget	FY 2021 Expense Budget	\$, Variance	%, Variance
Materials, Supplies, Equipment	\$2,055,796	\$1,619,700	(\$436,096)	-21%
Training, Meeting, Events	\$1,638,821	\$1,194,701	(\$444,121)	-27%
Contingency	\$350,000	\$150,000	(\$200,000)	-57%
Utilities	\$1,744,597	\$1,707,240	(\$37,357)	-2%
Personnel - Merit Pay, Overtime, Part-Time	\$3,996,953	\$3,022,172	(\$974,781)	-24%
Contract Services	\$ 4,434,074	\$ 3,860,904	(\$523,170)	-12%
Other	\$332,700	\$20,000	(\$312,700)	-94%
Total	\$14,552,941	\$11,574,717	(\$2,978,224)	

2. **Capital Improvement Funds – Delay, Defer, Cancel (\$3.8M)** –
 - a. 1) \$1.7M Delay capital projects, and 2) utilize 32% or \$2.1M of Capital Improvement Fund balance.
 - b. **If council preferred to delay/defer additional capital projects, the council could pursue two paths:**
 - i. Delay/Defer larger proportions of the recommended FY 2021 Capital Project list (Contained in Exhibit A)

- ii. Delay/defer additional capital projects with flexible funding. A list of additional potential projects is also provided. (Exhibit A)
3. **Utilize General Fund Balance (21% or \$1.7M)** - Fund balances (emergency reserves) were intentionally built up over time in order to help PCMC meet public service demands in the event of an economic downturn.

BUDGET SUMMARY

The FY 2020 operating Adjusted Budget reflects a less than 1% increase from the FY 2020 Original Budget, and ends June 30. The increase was driven by additional contingency funds related to COVID-19 and assisting local non-profits. The Budget Department tightly monitors the adjusted budget to ensure any changes are captured for Final Budget adoption on June 25. The capital budget increase is related to carryforward, and the debt service increase is related to water bond issuances.

Expenditure Summary by Major Object - All Fund								
	Actuals FY 2016	Actuals FY 2017	Actuals FY 2018	Actuals FY 2019	YTD Actuals FY 2020	Original Budget FY 2020	Adjusted Budget FY 2020	Original Budget FY 2021
Personnel	30,515,422	33,455,040	36,532,398	39,163,872	34,038,831	41,704,450	41,585,288	39,980,160
Mat, Suppls, Services	14,821,754	15,412,531	17,825,325	26,446,247	14,763,248	21,974,936	21,974,936	20,234,163
Capital Outlay	175,024	555,730	402,605	624,691	384,904	793,483	793,483	507,725
Contingency	27,881	116,958	75,437	67,018	114,795	540,000	940,000	450,000
Operating	45,540,080	49,540,260	54,835,765	66,301,827	49,301,778	65,012,870	65,293,707	61,172,048
Capital	19,985,188	76,532,985	60,601,638	73,693,985	34,403,784	95,715,062	192,831,510	88,231,849
Debt Service	11,337,373	11,130,107	16,216,948	16,853,649	11,766,461	14,901,881	26,907,296	13,791,615
Interfund Transfer	15,431,059	39,521,611	47,750,191	79,846,401	16,312,396	20,908,976	22,438,985	21,916,053
Ending Balance	81,763,532	83,017,228	83,191,254	117,717,331		54,532,316	92,372,032	60,865,681
TOTAL	174,057,232	259,742,190	262,595,797	354,413,193	111,784,419	251,071,104	399,843,530	245,977,246

Personnel – Wages & Benefits; MSS – Departmental operations & maintenance; Capital Outlay – Office equipment and parts; Contingency – Emergency funding for one-time expenses; Capital – Major capital improvement projects; Debt Service – Annual payments related to bonding; Interfund Transfer – Transfer budgets between funds; Ending Balance – Revenues less expenses

The Citywide FY 2021 Operating Budget, on the other hand, will decrease to \$61.1 million, a 6.3% decrease from the FY 2020 Adjusted Budget. The decrease is due to expenditure reductions in operating budgets mainly to address the projected revenue shortfall. The decrease in funding as described above, is accounting for the General Fund. However, this table addresses the decreases related to every fund at the City. These changes will be more fully discussed on May 28 with details by department. Personnel decreases are partially offset by an inflationary health insurance increase for FY 2021. Additionally, as mentioned above, bridging the City's projected revenue shortfall has been accomplished through a balanced approach of expenditure reductions in operating budgets, personnel, delaying and deferring capital projects, and the use of emergency reserves.

ENTERPRISE FUNDS

In addition to the General Fund, the Enterprise Funds of the City are subject to their own revenue streams. For example, the Water and Stormwater funds generate revenue directly through water service and impact fees from services provided to households/businesses. For funds like the Transportation Fund, revenue sources are more complex, combining sales tax revenues, County contributions, State and Federal grants, etc. The City's Parking and Golf funds, also relying on their own revenues, while anticipated to decline, remain stable in the near term.

WATER & STORM WATER FUNDS

The Stormwater Fund remains stable even with the proposed short-term 50% fee reduction and temporary suspension of late fees. Staff is recommending significant equipment and project delays to reduce the burden to ratepayers, including:

- Vactor truck
- Street sweeper
- Dump station
- Payday Drive stormwater improvements

When Council authorized the recent water revenue bond and the City received a very favorable interest rate for its 2020 general obligation bond, staff consolidated the FY 2020 and FY 2021 water revenue bond issuances into a single issuance. The result is a potential cost savings to ratepayers of approximately \$250k/year, or ~\$5M, over a 20 year bond period.

The Water Fund remains stable, even with a 10% anticipated revenue reduction in FY 2020, and 23% reduction in FY 2021, 2022, and 2023. Future rate increases are still anticipated at 3% per year.

TRANSPORTATION FUND

Savings Target

Due to the dramatic reduction in sales tax revenue, the Park City Budget Department is forecasting FY 2021 transportation revenue will decline by, at minimum, \$5.4 million, from the previous year. Transit operations are diligently working to produce an operational model that reduces unnecessary expenses to balance the \$5.4M anticipated revenue shortfall for FY 2021.

Strategies for Achieving Operating Expense Savings

Transit expenses are directly linked to levels of transit service. While minor deferrals, efficiencies or cuts can be made without impacting service, achieving the level of savings needed for FY 2021 requires service and staffing adjustments. Fortunately, the dramatic decline in demand for transit service has enabled Park City Transit (PCT) to begin achieving operating expense savings by reducing transit service to an essential-only service level. PCT will continue the essential-only service level as long as transit demand remains low.

In addition to reducing service, PCT will analyze and implement service and efficiency improvements across the department. These improvements include changes in routing, frequency and hours of service to more closely match demand; payroll and driver scheduling changes to reduce paid, non-driving time, clock-in and clock-out procedures and overtime. Changes to service will be reviewed with JTAB. Transit staff will present a detailed plan at a subsequent budget hearing.

Exhibits

A – Budget Report (Abridged)

B – Budget Ordinance

C – Comprehensive Budget Report ([Link](#))