



MEMORANDUM

Administrative and Financial Services Office

To: Brent Trout, City Manager

From: Jessica Lamendola, Director of Administrative and Financial Services

Steve Wade, Budget Director

Date: September 11, 2020

Subject: 2020 Operating Budget – Yearend Forecast

The Finance staff has completed its analysis of the available financial and economic information through August 31, 2020 for the City's General Fund (GF). The General Fund is the City of Topeka's primary operating fund and is comprised of a number of departments such as City Council, Mayor, Police, Fire, Executive, Public Works, and various other City functions. It receives the largest portion of the mill levy to support various services throughout the City. This budget update focuses on the GF. Other funds will be provided in another communication.

The current forecast for the GF indicates that the City will end the year with revenue under budget by approximately \$2.8 million. While sales tax has outperformed the expectations that were discussed in May, other revenue sources experienced negative pressure. The current sales tax forecast is more optimistic compared to prior updates, but we caution that there is insufficient data to accurately predict consumer spending behavior during a prolonged recession and/or a prolonged public health emergency.

In anticipation of a revenue shortage, the City implemented several expense-saving initiatives. These included a hiring freeze citywide, except for specially approved positions, implementation of a health payment holiday, and participation in the state's workshare program. Contractual services is projected to end the year above budget while commodities is essentially flat to budget.

At current levels, we anticipate \$1.4 million of vacant position savings between now and the end of the year. The city can save \$709,089 if another set of health holidays is implemented. With these additional savings, the City would end 2020 with a shortfall of approximately \$356,280.

Fiscal 2019 ended with GF unassigned reserve balance of \$21.43 million or 22.9 % of GF revenue. The City's current reserve policy is to maintain an unassigned reserve balance of no less than 15% but a target of 20%. The City could utilize approximately \$2 million of fund balance and still be compliant with its internal reserve policy target.

Revenue Forecast Assumptions:

- **Property Tax** continues to be a dependable revenue overall. Current property tax collections is close to expectation while delinquent tax payments have slowed since the beginning of 2020. During the last ten years, including the great recession, the current delinquency rates did not exceed 4% (2013).
- **Motor Vehicle AV** is considered a fairly resilient and dependable revenue. Following the great recession, this revenue source experienced a 5% decline in 2010. Current projections assume full collection of this revenue item. Both new and used car sales faced challenges during the second quarter, however recent sales tax data indicates that the third quarter has been stronger.
- **Sales Tax** is considered an economically sensitive revenue as it is fully dependent upon economic activity within the local economy. This revenue source has been the most surprising during the public health emergency as collections have remained fairly stable and compensating use tax has experience strong year over year growth. If collections continue its current pattern, the City will end the year close to budget.

The initial economic stimulus helped support consumer spending and without additional support, this may negatively impact future spending behavior. The forecast presented today assumes that the current spending behavior will continue throughout the rest of 2020 with sales tax within 5% of the prior month (year over year) and compensating use tax growth experiencing 30% monthly (year of year) growth for the third quarter and flat growth for the fourth quarter. However, if consumer spending were to go down, the City's yearend revenue collection would as well.

- **PILOTs** are payments made to the City based upon agreements with City utilities or agreements with outside agencies where they have been granted a tax abatement.
- **Franchise Fees** are revenue received from local utilities based on a percentage of the revenue generated at local utilities. The largest franchise fee contributors have faced revenue challenges as a result of the public health emergency. For example, when large industrial power users shutdown in the spring this reduced their use of power. As a result energy providers experienced lower revenue. We expect 2020 will end the year between 2018 and 2019. City staff will continue to reach out to these entities.
- **License & Permits** are largely building permit fees. The first half of 2020 performed as expected at the beginning of the year. However, the second half of 2020 seems to reflect a slowdown in larger private project activity but for one very large project (WalMart distribution facility). This revenue source experienced an approximate 15% decline in 2010 when compared to 2009. We will continue to monitor bank and lending activity to assess whether this needs to be taken down further. Commercial permits are down 30% year over year and August was the worst "August", based on value of construction, in over four years. In addition, there are no large projects expected to enter the permit phase during the remaining part of 2020.
- **Intergovernmental** revenue is the state liquor tax that is placed on poured alcoholic drinks. The forecast assumes the budgeted amount as both the first and second quarter collections were close to expectations.

- **Fees** include Administrative Fees that other funds pay to the General Fund and fees associated with the zoo. The zoo is expected to end the year approximately \$400,000 under budget.
- **Municipal Court Fees** are performing close to expectations.
- **Special Assessments** revenue is largely generated by fines placed on residences. The year is performing close to budget.
- **Miscellaneous** revenue is largely investment income. The City has a fairly robust and active investment strategy and has locked into rates for the majority of its investable assets for the entire year. However, for the sake of this forecast, it is assumed that all callable securities will be called and reinvested at half the current return.
- **Other** revenue is driven by the sale of City assets. This has not been adjusted down from the 2020 Adopted Budget.

Expense Forecast:

Personnel Related Savings

Already Achieved Personnel Savings	
Health Holiday	709,089
Savings Related to Vacant Positions	1,529,814
Projected Personnel Savings	2,238,903
December Health Holiday	709,089
Projected additional benefits savings	1,414,008
Total Forecast Year Personnel Savings	4,362,000

2020 Year End Projections		
General Fund Revenues	Adopted Budget	2020 Forecast
Ad Valorem Taxes	28,179,816	27,634,586
Motor Vehicle AV	2,551,778	2,551,778
Sales Tax	31,191,569	31,468,436
PILOTS	7,810,521	7,799,228
Franchise Fees	14,689,541	13,477,408
Licenses and Permits	1,722,492	1,361,519
Intergovernmental	1,253,897	1,145,750
Fees	4,832,157	4,432,157
Municipal Court	2,500,000	2,314,000
Special Assessments	285,000	285,000
Misc.	1,258,080	1,100,000
Other	220,694	87,524
Total Revenues	96,495,545	93,657,387
General Fund Expenditures		2020 Forecast
Personal Services	77,601,091	75,362,188
Contractual Services	18,066,906	18,419,663
Commodities	2,362,745	2,390,110
Capital Outlay/Transfers	(35,197)	(35,197)
Total Expenditures	97,995,545	96,136,764
Sep-Dec. Expense Reduction Forecast		2,123,097
Forecast Yearend Budget Surplus (Deficit)	(1,500,000)	(356,280)