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Presentation of the FY21 General Fund Revenue Forecast

Issue/Request:

Presentation of the FY21 General Fund Revenue Forecast

Key Issues:

The forecast for the FY21 revenues was put together during unprecedented times with the COVID-19 pandemic impacting the health and economies of cities, states, and countries around the world. Because there is limited data on how the measures to combat the virus (i.e. social distancing, shelter-in-place, etc.) will impact the City's revenues, it will be important to regularly review the revenues throughout the fiscal year.

The total revenues for the General Fund in FY21 is forecasted at \$70,322,934. In comparison to FY20, the forecast total is less than the FY20 General Fund revenue year-end projections by approximately \$3.1 million. The following is information about the major revenue categories:

-Property Taxes: Beginning in FY21, the City will change how Property Tax-Payment in Lieu of Earnings (PILOT) revenue is reported. Prior to FY21, the City reported the total revenue, which included the portion that is passed through to other entities (which is approximately 85% of the PILOT revenue). Beginning in FY21, the City will only report the net revenue for Property Tax-PILOTs (or the portion that the City keeps).

Property Tax is the largest revenue source for the City's General Fund, accounting for approximately 30% of all General Fund revenues. As a category, property tax revenues are forecasted at approximately \$21 million, which is an estimated increase of \$383,000 (or 1.85%) over the FY20 revenue projections.

-Sales Tax: The second largest revenue source for the City's General Fund, accounting for approximately 22% of the revenues, is Sales Tax. There are three different accounts that make up the sales tax revenue category in the General Fund. Sales Tax is forecasted to total approximately \$15.46 million, which is a decrease of approximately \$1.97 million (or 11.30%) compared to the FY20 revenue projections.

Sales Tax revenue is an area that is anticipated to be impacted by the COVID-19 pandemic. In order to plan for the anticipated impact and forecast the FY21 Local Sales Tax and Local Sales Tax-EATS revenues, the City assumed a 10% decrease from FY20 amounts (actuals were used for July to March and the projection estimate was used for April to June). It is important to note that there is a two-month lag in sales tax revenues for the City. (Sales tax that is paid/ collected in April is remitted to the City in June.) The COVID-19 stay-at-home order was issued in mid-March, which impacted consumer habits and required non-essential businesses to close. As a result, the City will not have a full month's worth of data to see how the sales tax has been impacted until June.

Another reason for the forecasted decrease in Sales Tax revenues is due to the fact that the Sales Tax-Cass County prior period remittance is scheduled to end in FY21. This revenue source is a fixed revenue payment that the City receives on a monthly basis for a correction/ adjustment with electricity sales. The City is scheduled to receive the revenue over a 36 month period. The City began receiving this in January 2018 and will receive the last payment in December of 2020 (FY21).

-Franchise Taxes: The third largest revenue category for the City's General Fund is Franchise Taxes and they account for approximately 16% of the total revenues. For the FY21 revenue forecast, franchise tax revenues are estimated to total \$11.77 million, which is a decrease of approximately \$550,000 (or 4.47%) from the FY20 revenue projections. There are four franchise tax revenue sources: Natural Gas, Telephone, Electric, and Cable TV.

The most impactful variables for Natural Gas and Electric franchise tax revenues are rates and usage (which is impacted by weather). In order to forecast the FY21 amounts, a baseline was estimated using historical averages. Once the baseline was established then 3% was subtracted from the baseline to account for potential impacts of the COVID-19 pandemic. (The franchise tax is a gross receipts tax on companies providing the utility services. A potential impact includes customers not paying the utility bill, which impacts gross receipts, because utility companies are not shutting off services during the pandemic.)

Telephone and Cable TV franchise taxes have decreased over several years. These franchise taxes were forecasted by subtracting the 3-year average amount that the revenues have decreased from the FY20 Projection amount.

-Charges for Services: This revenue category accounts for approximately 14% of all revenue in the General Fund. This revenue category consists of the charges for services that the City provides. Some of the larger revenues in this category include ambulance fees, EMS/ dispatch contracts, commissions on taxes, and communication tower land leases. The total revenue for this category totals approximately \$9.5 million.

-Motor Vehicle Taxes: This revenue category accounts for approximately 4% of General Fund revenues and consists of three different revenues: Motor Vehicle-Fuel tax, Motor Vehicle-Sales tax, and Motor Vehicle-License/ Transfer fee. This is another revenue category that is anticipated to be impacted by the COVID-19 pandemic. In order to plan for the anticipated impact and forecast the FY21 revenues, the City used a similar methodology that was used for Sales Tax and assumed a 10% decrease from FY20 amounts. The revenue for this category is forecasted to total \$3.4 million, which is a decrease of approximately \$388,000 (or 10%) from the FY20 Projection amount.

-Licenses and Permits: This revenue category accounts for approximately 4% of General Fund revenues. The revenue category consists of approximately 20 different revenues, with a majority of the total revenues dealing with development related licenses and permits. The methodology used to calculate this category's forecast was to estimate the revenues under normal conditions, which served as the baseline. Then to account for the anticipated impacts of COVID-19, a 15% decrease from the baseline forecast was assumed. As a result, the total revenues for this category total approximately \$2.85 million, which is a decrease of approximately 342,000 (or 10.8%) from the FY20 Projection amount.

-Other: This revenue category accounts for approximately 4% of General Fund revenues. The revenue category consists of several different revenues including reimbursement for capital projects (includes Public Works and Law) and other refunds and reimbursements to the General Fund. The revenue for this category is forecasted to total \$2.48 million.

The revenue categories listed above account for approximately 95% of all revenues in the General Fund.

Proposed City Council Motion:

Not applicable. This presentation is for informational purposes.

Background:

Part of the budget process includes the forecast of General Fund revenues for the upcoming fiscal year.

Impact/Analysis:

The forecast for the FY21 revenues was put together during unprecedented times with the COVID-19 pandemic impacting the health and economies of cities, states, and countries around the world. Because there is limited data on how the measures to combat the virus (i.e. social distancing, shelter-in-place, etc.) will impact the City's revenues, it will be important to regularly review the revenues throughout the fiscal year.

Other Information/Unique Characteristics:

Please reference the presentation titled "FY21 General Fund Revenue Forecast" for additional information.

Chris Clubine, Management Analyst

Recommendation: Not applicable. This presentation is for informational purposes.

Committee Recommendation: [Enter Committee Recommendation text Here]