



**INTEROFFICE MEMORANDUM**  
*Office of the City Manager*

**DATE:** May 6, 2020 **FILE:** CM-20-022  
**TO:** Mayor, Vice Mayor, and City Commissioners  
**FROM:** Dr. Wazir Ishmael, City Manager  
**SUBJECT:** Fiscal Year 2020 All Funds Budget –COVID-19 Impact  
*(Update from April 9, 2020 Report)*

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**Issue:** It has been 56 days since the City first declared a State of Emergency in response to the COVID-19 pandemic. Eight weeks later, our lives have been forever changed as we continue to deal with the impediments placed in front of us. From a financial standpoint, we remain committed in our efforts to ensuring we remain fiscally stable to weather this long and volatile event.

**Explanation:** The Office of Budget and Performance Management conducted an updated analysis of our collected revenues and programmed expenditures as of March 30, 2020 for all City funds in an effort to provide a budgetary projection for the remainder of the current fiscal year. As an update from our April 9, 2020 report, I am encouraged by the revised positive financial projections, however, we continue to be cautiously optimistic of our projections as the sheer magnitude and duration of the current climate still remain uncertain. Our cost savings measures have and continue to yield positive results. We will continue to enforce these measures and look for other cost containment opportunities in our effort to remain fiscally strong for the remainder of FY 2020.

**Recommendation:** For your information

C: Deputy City Manager  
Assistant City Managers  
City Attorney  
Department Directors

**DATE:** May 5, 2020 **FILE:** OBPM 20-009

**TO:** Wazir A. Ishmael, Ph.D.  
City Manager

**VIA:** Adam Reichbach  
Assistant City Manager, Finance and Administration

**FROM:** Laurette Jean  
Budget Director

**SUBJECT:** UPDATE: Fiscal Year 2020 All Funds Budget –COVID-19 Impact

It has been nearly two months since the Safer at Home Executive Order was issued and we are beginning to see a downward trend in new infection cases of COVID-19 in Broward County. However, the number of COVID-19 related deaths continue to increase and the number of new infection cases regionally remain volatile. As concerns over reopening grow nationally, we continue to analyze the current and future financial impact of COVID-19 on the City.

A few weeks ago we reported a \$4 million projected revenue shortfall for the remainder of FY 2020 in the General Fund and immediately implemented a strategy to mitigate the revenue loss by reducing expenditures. The following report provides an update to the General Fund projections based on financials posted through the end of March 2020 and projections for the Enterprise and Internal Service Funds.

**General Fund Revenue Update**

As of March 31, 2020, approximately 77% of the General Fund revenues have been collected. This is mainly attributable to 93% of property tax revenues collected.

On the report dated April 9, 2020, we conservatively projected a delay in revenues of \$780,318 and a projected loss in revenues of \$3,116,632. We have since then updated our projections based on revenues posted through the end of March 2020 and utilizing the same assumptions reported back on April 9<sup>th</sup>.

As a reminder, the assumptions used to develop the General Fund revenue projections are listed below.

- Non-essential businesses and City facilities will remain closed through at least mid-May.

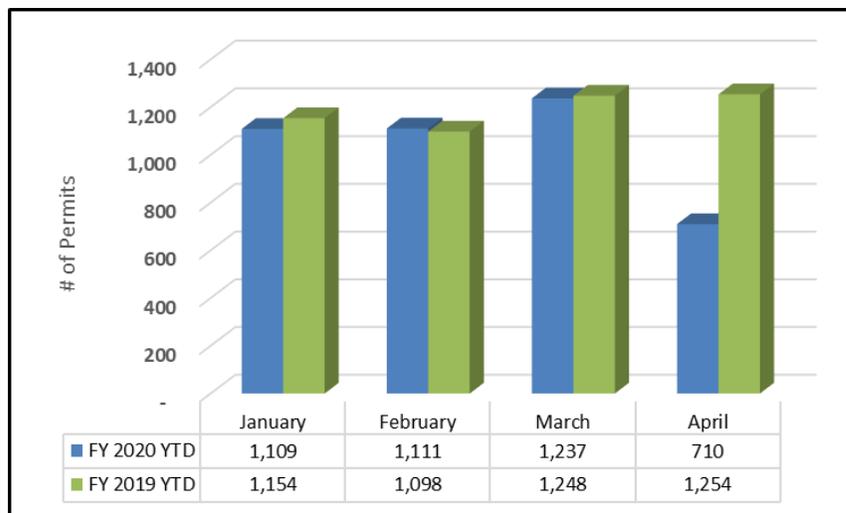
- We anticipate that not all local businesses will resume operations immediately and some may not re-open at all.
- Even as businesses and City facilities re-open, we anticipate that the economic hit to City revenues will be substantial and may mimic and possibly exceed prior recessionary trends.
- The impact on State Shared Revenue (such as sales tax) will not be realized until June (as revenues are typically received from the State two-months in arrears).
- Given that the City’s largest revenue source, property taxes, have been collected, we do not anticipate potential cash flow issues through fiscal year end.

Overall, the updated General Fund revenue projections reflect a shortfall of \$3 million compared to the originally projected \$4 million a few weeks ago. The difference between the May projections and April projections is largely attributable to higher revenue collections than anticipated. The following two revenue sources had the most significant adjustments:

- **Building Revenue Loss:** The original report conservatively projected that the impact of business closures and high unemployment would significantly impact the short and long term economic development activities in the City, thereby, resulting in a loss of building revenues by approximately \$1.2 million. Based on the posted March data, the building revenues collected was significantly higher than our original projection for the month of March. However, data provided by the Building Division reveals a considerable dip in permitting activity in the month of April (see Graph 1: Year-to-Date Permit Data Comparison). Given the recent permitting data, we have decided to make no changes to the original building assumptions.

*Revised Estimated Revenue Loss: Approximately <\$687,708>*

**Graph 1: Year-to-Date Permit Data Comparison**



- **Electric Utility Taxes & Franchise Fees:** The original projections assumed a loss of revenues as a result of a one-time reduction of nearly 25% for residential customers and an equally significant one-time reduction for business customers by Florida Power &

Light. This assumption remains the same. The only modification made in the projections for the electric utility and electric franchise fee revenues are the increased collections posted in the month of March.

*Revised Estimated Revenue Loss: Approximately <\$528,592>*

The table below summarizes the net revenue impact in the General Fund.

**Table 1: Summary of Revenue Impact**

	<b>April Projected Impact</b>	<b>May Projected Impact</b>	<b>Difference</b>
Potentially Delayed Revenues	\$ (780,318)	\$ (708,416)	\$ 71,902
Potentially Lost Revenues	\$ (3,116,632)	\$ (2,352,964)	\$ 763,668
Normal Increases/Decreases	\$ (126,865)	\$ 44,672	\$ 171,537
<b>Total Projected Revenue Shortfall</b>	<b>\$ (4,023,815)</b>	<b>\$ (3,016,708)</b>	<b>\$ 1,007,107</b>

**General Fund Expenditure Update**

A few weeks ago, the projected expenditure savings was \$3.7 million based on the following assumptions:

- Salary expenditures through February 29, 2020 will continue at the same rate through the end of the fiscal year.
- During the first six months of the fiscal year, we have seen an increase in accrual leave payouts related to pension restoration and anticipate the cost will be significantly higher than the prior years.
- Reduction in discretionary spending in certain operating accounts such as office supplies and training is expected as a result of employee telecommuting and City facility closure to the public.
- Debt service payments are anticipated to be lower than budget due to delays in borrowing for capital projects.

The updated projections for the General Fund reflects an estimated year end savings of \$5.1 million. The previous projections did not account for the cost containment measures recently implemented Citywide. To date, the estimated savings of implementing the cost containment measures is \$1.3 million in the General Fund. It is important to note that the City has been able to reduce costs without layoffs or furloughs. Table 2 summarizes the revised expenditure projections compared to the April projections.

**Table 2: Summary of Expenditure Projections**

	<b>April Projected Savings</b>	<b>May Projected Savings</b>	<b>Difference</b>
Personnel Services	\$ 2,910,666	\$ 4,024,206	\$ 1,113,540
Operating Expenses	\$ 356,531	\$ 578,584	\$ 222,053
Capital Outlay	\$ 529	\$ -	\$ (529)
Debt Service	\$ 500,000	\$ 500,000	\$ -
Non-Operating Expenses	\$ 16,988	\$ 27,498	\$ 10,510
Fund Balance Reserves	\$ -	\$ -	\$ -
<b>Total Operating Expenses</b>	<b>\$ 3,784,714</b>	<b>\$ 5,130,288</b>	<b>\$ 1,345,574</b>

If General Fund revenues are collected as projected and the cost containment measures continues through the end of the fiscal year, we estimate that the fund will end with a surplus of \$2.1 million by year end. It is important to note that these projections can swing positively or negatively dependent on external factors (such as the national economy). For this reason, it is important that we continue to monitor revenues and take the necessary action to continue to reduce costs.

**Table 3: Summary: Fiscal Year 2020 General Fund Projections**

	<b>April Projections</b>	<b>May Projections</b>	<b>Difference in Projections</b>
Revenues	\$ 315,131,436	\$ 316,138,543	\$ 1,007,107
Expenditures	\$ 315,370,538	\$ 314,024,964	\$ 1,345,574
<b>Projected Savings/Shortfall</b>	<b>\$ (239,102)</b>	<b>\$ 2,113,579</b>	<b>\$ 2,352,681</b>

### **Other Funds: Methodology/Approach**

We anticipate that the level of impact of this pandemic will differ by fund and by revenue sources. With that in mind, the Budget & Performance Management staff has worked collaboratively with other City Departments to develop different projection models for Enterprise and Internal Service funds.

This report encompasses financial data posted through March 31, 2020, analysis of revenue and expenditure trends over the past 6 months, cash flow analysis for enterprise funds through the end of March 2020, and an analysis of historical trends (including pre-recession and post-recession trends). Additionally, the following assumptions were made by fund type:

#### Enterprise Fund Assumptions:

- Water & Sewer, Stormwater and Sanitation services will continue normal operations through the end of the fiscal year.
- Non-residential water & sewer usage is expected to be reduced as a result of non-essential business closures. On the contrast, residential water & sewer usage is expected to increase as a result of the Safer at Home orders.

- It is too soon to accurately predict the initial impact of the COVID-19 pandemic on Water & Sewer and Sanitation Funds (as customers are billed in arrears). Utilities staff will be able to analyze the potential impact in late May (after the March bills are due).
- Recent adjustments to water & sewer rates will contribute to the offset of potential revenue loss resulting from business closures.
- Customer water shut-offs for non-payment and late penalties are suspended until further notice.
- City-owned parking garages will remain open through the end of the fiscal year. For the purposes of this analysis, parking collections is assumed to resume mid-May.
- Parking revenues from contracted garages will continue to be collected through the end of the fiscal year and non-contractual garage revenues collections (particularly beach parking) is anticipated to significantly decrease by nearly 90%.
- Golf operations will remain closed until further notice. However, for the purposes of this analysis, golf operations are assumed to reopen mid-May. Once operations resume we anticipate a slow recovery, in part due to the continuation of social distancing restrictions, through the end of the fiscal year.

#### Internal Service Fund Assumptions:

The Records Preservation and Internal Service Fund revenues are not expected to be impacted by the COVID-19 pandemic. For this reason, this memo will not include an explanation of this fund. The projected revenues and expenditures are included in the attached Enterprise and Internal Fund Snapshot.

#### **Revenue Analysis**

The economic impact of the COVID-19 pandemic has been swift and severe. As mentioned in the April 9<sup>th</sup>, 2020 report, some revenue sources were impacted immediately while other revenues will have a delayed impact. For the purposes of this analysis, we have taken the same approach of separating revenues into two categories: Potentially Delayed Revenues and Potentially Lost Revenues.

#### Potentially Delayed Revenues:

This category includes revenue sources expected to be received later than the usual timing of collection as a result of the COVID-19 pandemic. Once normal operations resume, we anticipate that revenues in this category will be collected. We have categorized these revenues as Potentially Delayed Revenues.

- **Water & Sewer Revenues:** The Water & Sewer Utility Fund is the second largest fund in the City providing water, wastewater, and stormwater services to customers. Although it is too soon to determine the extent in which the pandemic will impact this revenue source, we do anticipate that there will be delays in utility payments.
- **Sanitation Fees:** There are over 34,000 residential units that receive City sanitation services. Similarly to the Water & Sewer revenues, we anticipate that the sanitation fees will be delayed primarily due to high unemployment rates. Additionally, the

sanitation revenues are billed in arrears which creates a challenge to analyze potential revenue loss. We will revisit the projections once the April billing data is received.

#### Potentially Lost Revenues:

This category include revenue sources that may not be collected or recaptured for every month the *Safer at Home* order remains in effect. These revenues include but are not limited to:

- **Water & Sewer Revenues:** An analysis of the Water & Sewer Fund, pre and post the last recession, reflected a nominal loss in revenues. However, given the unprecedented nature of the COVID-19 pandemic and analysis conducted by industry experts, we anticipate that the business closures, suspension of water shut-offs and uncollectable delinquent accounts will result in lost revenues. At this time, we cannot estimate the loss until preferably the April billing payments are collected.

#### *Estimated Revenue Loss: TBD*

- **Golf Revenues:** Approximately 63% of the budgeted Golf Fund revenues have been collected to date. Currently, the revenue budget in this fund comprises of operating revenues from Orangebrook. As a result of the closure of golf courses, we anticipate a slow-down in revenue collections once golf operations reopen.

*Estimated Revenue Loss: Approximately <\$441,856>*

- **Parking Revenues:** The Parking Fund revenues is expected to have the biggest hit in revenues as a result of the COVID-19 pandemic. The Parking Division currently has two contractual lease agreements to provide residential parking at a fixed rate in the Van Buren and Radius Garages. Outside of these contractual obligations, significant revenue loss is projected through the end of the fiscal year. Even as parks, beaches, and businesses reopen, we anticipate that it will take a considerable amount of time before revenues return to recent levels.

*Estimated Revenue Loss: Approximately <\$4.9 million>*

With the exception of the Golf Fund, Sanitation Fund, and Parking Fund, the Enterprise Funds are expected to end the year in the positive. However, based on recent cash flow analysis of the Parking Fund, we have determined that there is sufficient cash to cover monthly operational expenses through September and to address projected deficits in that fund. Similar cash flow analysis will be conducted for the other enterprise funds once customer payments for the month of April are received and posted. Yet it is important to note that use of available cash reserves is a short-term solution. For this reason, the following corrective action plan is recommended:

#### Golf Enterprise Fund:

- This fund has historically had a deficit by year end. Due to the recurring imbalance of the fund, the Finance and Budget staff has had discussions to roll the fund back into the General Fund. No action is recommended at this time. Additional information will follow.

#### Sanitation Enterprise Fund:

- The Environmental Services Division has frozen three vacant positions and will not fill positions as they become vacant (unless deemed critical to their operations and must be approved by the City Manager).
- The Division is looking for ways to reduce operating costs and all non-critical capital purchases are suspended.
- Given that services are billed in arrears, we would like to hold off on taking further action until we are able to analyze April revenue collections and billing data.

#### Parking Enterprise Fund:

- The Parking Division has one vacancy (which is frozen) and will not fill positions as they become vacant (unless deemed critical to their operations and must be approved by the City Manager).
- The transition from cashiers to an electronic cashiering system will save the fund approximately \$23,000 a month. This change is scheduled to take place in May.
- The Division is looking for ways to reduce operating costs and all non-critical capital purchases are suspended.
- As the City work towards a transitional plan to reopen, we realize that Parking revenues may improve in the coming months. For this reason, if revenues continue to decline over the next few months, we recommend use of Parking Fund reserves to offset projected revenue shortfall.

To summarize, the financial state of the City remains strong largely due to changes made over the years to establish healthy fund balance reserves in all of the funds. As we move forward with the Fiscal Year 2021 budget process, we will strategically evaluate all options to generate additional revenues, reduce costs, and maintain quality services to our residents.

For the remainder of this fiscal year, we will continue to be conservative but practical with our projections, closely monitor revenues and expenditures, actively manage costs in collaboration with the departments, and provide periodic reports on the City's finances.

Attachments: FY 2020 Budget Snapshot