



**Memorandum**

TO: Vail Town Council  
 FROM: Finance Department  
 DATE: April 7, 2020  
 SUBJECT: Budgetary impacts of COVID-19

**I. SUMMARY**

The purpose of this memo is to provide a summary of impacts to revenue projections and corresponding budget reductions. **Total revenues for the town are projected to decrease by a total of nearly \$10M, or 13.5% of annual revenue streams.** Of that total, sales tax represents a majority of the decrease, or \$7.2M. Sales tax is projected to drop 27% from prior year.

**II. BACKGROUND**

In an attempt to forecast revenue in this unprecedented time, this first round of estimates includes significant impacts to local business. We assume the major impact begins around March 8th, or 25% of the month with “normal” business. Collections in both April and May are projected with an 75-80% reduction; June at a 60% reduction and July a 25% reduction. The rest of the summer is projected down 20%. November and December have been reduced by 10% and may be adjusted again later in the year. **Overall this forecast results in an estimated decrease in sales tax collections of \$7.15M, or 27% from 2019** and a decrease of 25% from the original budget. Staff will continue to monitor economic indicators, as news changes daily.

Vail Sales Tax Collections					
	Original	Forecast	Variance to		
	2019	2020	2020	2019	
Jan	4,079,744	3,964,836	4,061,971	-0.4%	
Feb	4,135,058	4,050,408	4,135,058	0.0%	
Mar	4,236,012	4,278,600	1,059,003	-75.0%	
April	1,444,529	1,397,676	288,906	-80.0%	
May	763,506	770,148	190,877	-75.0%	
June	1,606,469	1,597,344	642,588	-60.0%	
July	2,497,740	2,424,540	1,998,192	-20.0%	
Aug	2,247,010	2,224,872	1,797,608	-20.0%	
Sept	1,608,882	1,597,344	1,287,106	-20.0%	
Oct	1,225,291	1,055,388	980,233	-20.0%	
Nov	1,257,556	1,112,436	1,131,800	-10.0%	
Dec	4,220,916	4,050,408	3,798,824	-10.0%	
<b>Total</b>	<b>29,322,713</b>	<b>28,524,000</b>	<b>21,372,165</b>	<b>-\$9,390,207</b>	<b>-27.1%</b>
<b>Budget Adjustment:</b>			<b>(7,151,835)</b>	<b>-25.1%</b>	

In addition to sales tax, the below major revenue sources may be impacted:

- Sales Tax \$(7,200,000)
- Lift Tax \$(1,060,000)
- Parking sales \$(1,029,600)
- Earnings on investment \$ (300,000)
- County sales tax \$ (198,400)
- Project Reimbursements \$ (120,000)
- Donovan Pavilion rentals \$ (90,000)

RETT collections are not projected for a decrease as yet, because the 2020 original budget is already at a 13% reduction from 2019. Total revenue reductions of \$9,998,000 equates to a 13.5% decrease in revenue.

**RECESSION PLAN:** During the 2020 Budget process, Council reviewed and approved a high-level recession plan. There are multiple stages of this recession plan, with each stage representing escalating impacts to revenue streams. **Based on the 13% reduction in the General Fund, we land at the “Significant” recession plan level.**

1. **Minor:** Impacts to revenues are minor, such as a 1-5% reduction. Staff recommends maintaining service levels while making minor cuts to operating expenditures. Utilize reserves where necessary.
2. **Moderate:** Impacts to revenue are moderate, such as a 5-10% reduction. Staff recommends maintaining service levels while making larger cuts to operating expenditures. Reduce annual merit increases for employees. Defer capital projects unless already in process. Utilize reserves where necessary.
3. **Significant:** Impacts to revenue are significant, such as a 10-15% reduction. Staff recommends limited service reductions (“unseen” services to be reduced first), manage staffing vacancies and deferring capital projects. Utilize reserves where necessary. Potential merit deferral / freeze in wages.
4. **Major:** Impacts to revenue are major, such as a 15-20% reduction. Staff recommends service reductions, merit deferral / freeze in wages, potential reduction in staff and deferring capital projects. Utilize reserves.
5. **Crisis:** Impacts to revenue are at a crisis level such as over 20% reductions to revenues. Staff recommends significant reductions in service levels, reduction in staff, merit deferral / freeze in wages and deferring capital projects. Utilize reserves.

### III. BUDGET REDUCTIONS

In response to the revenue impacts, staff proposes budget reductions to the General Fund, Capital Projects Fund, Real Estate Transfer Tax Fund, Dispatch Services Fund and the Heavy Equipment Fund. All of these reductions will be reflected in the second reading of Ordinance No. 1, Series 2020 adjusting the budget in the evening council meeting.

### **Balancing the General Fund Budget:**

Revenue impact to the General fund totals \$6.4 million. Staff proposes the following actions to balance the annual budget:

- **Utilize fund balance** to help offset the expenditure cuts. 2019 resulted in a surplus of \$4.0M going to the General Fund reserves from both a combination of revenues exceeding budget (\$2.6M) and savings in operating expenditures (\$1.5M). Applying this amount against the loss of \$6.4M would reduce the “need” to \$2.4M.
- **Refrain from any future merit increases** for the remainder of the year, unless the local economy and revenue expectations turn around. Staff will re-assess late summer. This will save approximately \$730,000, or 31% of the cost reduction “need” being funded by employees. Recognize savings from staffing vacancies or service reductions that may be implemented.
- **Reduce operating expenditures 10%** (excluding staffing). This includes Dispatch Services and Heavy Equipment Fund (fleet operations). Examples of operating expenditures that may be cut include professional development, contract labor, travel, meals, supplies, etc. This will save \$1.2M in the General Fund.

### **Capital Projects Fund and RETT Fund:**

Staff recommends both recognizing **permanent savings** as well as **deferring larger capital projects** for a year.

**Combined project savings and deferrals total \$18.3M** and are listed below.

Permanent Savings- \$3.1M

- Recognize 2019 savings in various projects (\$1.3M)
- Public Works Remodel (\$1.4M)
- Hybrid Bus Battery Replacements (\$388.7K)
- Short-Term Rental and Sales Tax Software (\$50.5K)
- Fire Equipment (\$7K)

Deferred Project Savings-\$15.2M

- Public Works Remodel (\$12.7M)
- Parking Structure Cameras (\$1.0M)
- Lupine & Nugget Lane Bridge Reconstructions- (\$750K)
- East Vail Interchange Underpass Sidewalk (\$500K)
- Fire safety equipment (\$32.0K)
- Fire Station Alert System (\$198.0K)

Separately, there are projects that due to timing or benefit to local economy staff is proposing to move forward in the next 90 days. These projects include:

- PW Shops: moving forward with retaining wall and utility infrastructure for 2020
- Electric bus infrastructure
- Electric car charging infrastructure in the Lionshead parking structure
- Air handling units in Police Department building
- Remodel of Community Development front office for public access and safety issues

#### **IV. NEXT STEPS**

The supplemental budget ordinance in the evening council meeting will reflect these proposed changes in the town's budget.

Staff will continue to monitor and assess additional financial impacts over time. While dramatic economic impacts have been anticipated, this initial round of budget reductions are intended to have minimal changes to services visible by guests and citizens of Vail. Should the town's revenue be further impacted as we analyze changing economic indicators, the next phase in the recession plan may be activated ("Major category) and corresponding actions such as service reductions will be considered.