



## Memorandum

TO: Vail Town Council

FROM: Finance Department

DATE: May 5, 2020

SUBJECT: Budgetary impacts of Public Health Crisis – Next Phases

### I. SUMMARY

The purpose of this memo is to provide an update on the projected impacts to town revenues and corresponding plans for budget reductions. Currently, the town has implemented the “Significant” level of recession plan. Over the last two weeks staff has monitored state and local public health orders, as well as gathered information on economic indicators as much as possible. The outcome is an outline of the **two next phases of the town’s recession plan: “Major” and “Crisis”**.

### II. BACKGROUND

The original 2020 budget included revenue of \$73.8 million. As of April 7, Town Council approved adjustments to the town budget:

- A reduction in revenues of \$10M, or 13% of total revenues for the town. This placed us in the **“Significant”** recession plan level.
- Corresponding reductions in expenditures of 10% department operating budgets (\$1.2M), a freeze on wages (\$730K), and utilization of reserves earned in 2019 (\$4.1M).
- Deferral of capital projects (\$18.3M).

#### **Updated Budget Projections**

While there are many unknowns for the local impact to our economy, staff has updated revenue projections to reflect a further worsening of the town’s annual revenue streams and corresponding plans for budget reductions. Public health orders currently allow for groups of 10, with the next phase permitting groups of 25-50 in the next 4 to 8 weeks, followed by a potential to have groups of up to 250 in late summer. The state of the public health crisis will have a significant impact to the town’s summer event schedule which traditionally draws large summer visitation and economic vitality. Other

uncertainties such as the status of air travel, consumer behavior and the potential for a resurgence of the COVID-19 virus also hinder the accuracy of revenue projections.

Additional data that helped to inform the updated projections include sales tax collections for the month of March, which were reported at \$2.2 million, a decrease of 46% from prior year. This is an improvement from the original assumption of a 75% decrease, a benefit of \$1.2 million to the town's revised revenue projections. To date, construction activity has not slowed other than two projects that will be delayed. Construction permits and plan check fees have been reduced by 18% to account for those two delays, with some room for additional fallout. Real Estate Transfer Tax collections were already budgeted at a 13% decrease from the prior year and additional reductions are not reflected at this time.

These updated revenue projections fall into the following two phases of the town's recession plan:

**“Major” Recession Phase:** The town's revenues are projected at **\$61.9 million, a decrease of \$18.0 million, or 22% from prior year.** Compared to budget, it is a decrease of \$12.0 million, or 16%. A majority of the decrease relates to sales tax, with collections estimated at \$19.2 million, a decrease of \$10.1 million, or 35% from 2019. Other major revenue sources such as Lift Tax, Parking, Construction Fees and Intergovernmental Revenue (County sales tax, grants and other shared taxes) have also decreased by double digits. Please see **Exhibit A “Revenue Assumptions”** for more detailed information.

**“Crisis” Recession Phase:** In this phase the town's revenues would be **projected at \$58.9 million, a decrease of \$21.0 million, or 26% from prior year.** Compared to budget, it is a decrease of \$15.0 million, or 20%. Again, a majority of the decrease relates to sales tax, with collections estimated at \$16.8 million, a 43% drop from 2019. If this phase is implemented, additional reductions are also assumed in the other major revenue categories.

Separately, **the town was recently awarded \$1.35 million in CARES funding for Transit operations.** These funds will dramatically help the town cover the cost of the impact of COVID-19 on our bus service interruption and efforts to bring it back.

Despite the uncertainty in revenue, the town will continue to provide core services to our citizens and slowly ramp up preparations to receive guests when that time comes. Summer services provided by the town will be reduced depending upon anticipated visitation levels as public health orders are updated over time.

### **Similar Situation throughout Colorado:**

The Colorado Municipal League (CML) recently partnered with the Colorado Department of Local Affairs, Colorado Counties, Inc. and Colorado Special Districts Association to survey local governments on COVID-19's fiscal impacts. The survey was conducted between April 3 and April 10, 2020, and a total of 551 Colorado counties, municipalities, and special districts responded to the survey, including 134 cities and towns, representing almost 50% of all Colorado municipalities. Some of the survey findings have been included below to provide a comparison of the response of other Colorado municipalities to the Town of Vail's planned response.

### **Colorado Municipal League (CML) Survey Results**

	<b>Average</b>	<b>Town of Vail</b>
Number of months of operating expenditures in reserves (General Fund)	6.7 months	10.8 months
How many will use reserves	69%	Yes
Average reduction in reserves anticipated	21.3%	17%
Average revenue decline	10.5 million	\$12.8 - \$16.5 million
Cost saving strategies (%age of municipalities implementing):	<ul style="list-style-type: none"><li>○ Delay capital projects: 73%</li><li>○ Reduce operating expenses: 66%</li><li>○ Delay equipment purchases: 65%</li><li>○ Hiring freezes: 53%</li><li>○ Reduction of personnel hours or furloughs: 28%</li><li>○ Reduction of force (layoffs): 10%</li></ul>	<ul style="list-style-type: none"><li>○ Delay capital projects: Yes</li><li>○ Reduce operating expenses: Yes</li><li>○ Delay equipment purchases: Yes</li><li>○ Hiring freezes: Yes</li><li>○ Reduction of personnel hours or furloughs: Yes - seasonal</li><li>○ Reduction of force (layoffs): No</li></ul>
Community relief measures	40% yes	Yes

A comparison of the survey results demonstrate that the Town of Vail has more reserves available than the average reported by municipalities (an additional 4.1 months of operations). While Vail is projecting a larger revenue decline than the average, staff is proposing to use less reserves to compensate for that decline.

What the survey also demonstrates is that even in the face of tightening budgets, Colorado cities and towns are offering support to their local businesses and residents in need through a variety of methods. To date, the Town of Vail has extended financial support to individuals with \$500,000 in funding to non-profit organizations to provide

local financial relief associated with COVID-19 impacts in the areas of food, shelter and health for the Vail community. Residential rental relief has also been extended to individuals living in town-owned housing. Support of local businesses includes a deferral of sales tax payments until August, and a proposed commercial rent relief program will be reviewed by the town's Economic Recovery Task Force.

### **III. BUDGET REDUCTIONS**

#### **GENERAL FUND**

In response to the next two phases of the town's recession plan, staff has proposed a tiered approach to additional cuts including the reduction of workforce hours from a delayed start to gearing up for summer, managed vacancies, wage freezes, operating expenditure cuts and use of reserves.

Using reserves to offset some of the projected revenue shortfall leaves the General Fund with an ending fund balance of \$29.5 million. This represents 68% of revenues in a *normal* budget year compared to Council's directive of 35%.

The remaining offset comes from reductions in operating expenditures, staffing and savings from cancelled special events. The "Major" recession plan includes workforce hour reductions based on currently outlined service levels such as a one-month delayed start to parking operations and an off-season bus schedule until June 29, when the summer service will resume. In addition, there are a number of vacant positions that will not be filled at this time. Staff is assuming a 20% reduction in special events and council contribution spending for signature events over the two phases. The Economic Development department is working with event producers to determine if postponement or a re-imagining of each event is possible. Until there is more information, we cannot identify an accurate amount of savings that will be realized.

Should the "Crisis" recession plan be necessary, staff will make further reductions in operating expenditures, workforce hours, longer delays in filling open positions and other cuts to wages or benefits. We should have more information on special events over the next month as well.

#### **OTHER FUNDS**

The Capital Projects Fund and RETT Fund have already been adjusted to reflect savings and deferrals of capital projects (savings totaling \$9.4M and \$18.5M in deferred projects). The RETT Fund also reflects operational savings within the Parks department, Art in Public Places, Environmental Sustainability and Forest Health.

The Heavy Equipment Fund and Dispatch Services Fund have already been adjusted to reflect both operational reductions and savings in fuel.

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

Staff will implement the “Major” phase now, with the budget adjustments to occur during the June supplemental. As more public health orders and economic information becomes available the “crisis” phase plan may be implemented if necessary.

## Exhibit A: Revenue assumptions

	Major	Crisis
Sales Tax	<p>35% decrease from PY</p> <p>YTD actuals thru March (\$10.6M collected, down 15% from PY) plus April &amp; May assume collect only from continued business such as gas stations, groceries and liquor store;</p> <p>June -July down 75%; Aug down 60%, Sept &amp; Oct down 50% Nov/Dec down 10%</p>	<p>43% decrease from PY</p> <p>YTD actuals thru March (\$10.6M collected, down 15% from PY) plus April &amp; May assume collect only from continued business such as gas stations, groceries and liquor store;</p> <p>June - Oct down 75% and Nov/Dec down 35%</p>
Lift Tax	<p>22% decrease from PY</p> <p>(YTD actuals plus assumes a decrease of 50% in summer and 10% in early winter)</p>	<p>27% decrease from PY</p> <p>(YTD actuals plus assumes a decrease of 50% in summer and 35% in early winter)</p>
Licenses & permits	18% decrease from PY	18% decrease from PY
Intergovernmental (County tax, grants, other shared taxes)	15% decrease from PY, offset by CARES Transit Grant	18% decrease from PY, offset by CARES Transit Grant
Parking Revenue	<p>27% decrease from PY</p> <p>(YTD actuals plus assumes a 50% decrease in summer and 10% in early winter)</p>	<p>37% decrease from PY</p> <p>(YTD actuals plus assumes a 50% decrease in summer and 35% in early winter)</p>
Rental Revenue (mainly Donovan Pavilion)	<p>Overall decrease of 23%</p> <p>Assumes 100% loss thru June 75% decrease July – Oct 10% decrease early winter</p>	<p>Overall decrease of 26%</p> <p>Assumes 100% loss thru June 75% decrease July – Oct 35% decrease early winter</p>

**TOWN OF VAIL 2020 AMENDED BUDGET**  
**SUMMARY OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCE**  
**GENERAL FUND**

	2020 Budget	Original 1st Supplemental	"Significant" COVID-19 Adjustments	2020 Amended	"Major" COVID-19 Adjustments	Proposed Amended	"Crisis" COVID-19 Adjustments	Proposed Amended	
<b>Revenue</b>				-27.3%		-35%		-43%	
Local Taxes:	\$ 28,524,000		\$ (7,150,000)	\$ 21,374,000	\$ (2,174,000)	\$ 19,200,000	\$ (2,400,000)	\$ 16,800,000	\$16.5M in 2005
Sales Tax Split b/t Gen'l Fund & Capital Fund	<b>62/38</b>			<b>66/34</b>		<b>68/32</b>		<b>68/32</b>	
Sales Tax	17,685,000	-	(3,575,000)	14,110,000	(1,054,000)	13,056,000	(1,632,000)	11,424,000	
Property and Ownership	5,900,000	-	-	5,900,000	-	5,900,000	-	5,900,000	Cash flow delays
Ski Lift Tax	5,300,000	-	(1,060,000)	4,240,000	(90,000)	4,150,000	(270,000)	3,880,000	
Franchise Fees, Penalties, and Other Taxes	1,175,440	400,000	-	1,575,440	-	1,575,440	-	1,575,440	
Licenses & Permits	2,400,000	-	-	2,400,000	(579,500)	1,820,500	-	1,820,500	
Intergovernmental Revenue	2,075,088	250,000	(198,400)	2,126,688	(175,088)	1,951,600	(76,800)	1,874,800	
CARES Transit Grant	-	-	-	-	916,000	916,000	431,000	1,347,000	CARES Transit Grant \$1.3M
Transportation Centers	6,360,000	-	(1,029,600)	5,330,400	(416,000)	4,914,400	(650,000)	4,264,400	
Charges for Services	1,025,918	-	-	1,025,918	(16,431)	1,009,487	-	1,009,487	
Fines & Forfeitures	250,476	-	-	250,476	-	250,476	-	250,476	
Earnings on Investments	500,000	-	(300,000)	200,000	-	200,000	-	200,000	
Rental Revenue	1,093,178	4,080	(90,000)	1,007,258	(112,000)	895,258	(15,000)	880,258	Donovan Pavilion rentals
Miscellaneous and Project Reimbursements	251,000	-	(120,000)	131,000	-	131,000	-	131,000	
<b>Total Revenue</b>	<b>44,016,100</b>	<b>654,080</b>	<b>(6,373,000)</b>	<b>38,297,180</b>	<b>(1,527,019)</b>	<b>36,770,161</b>	<b>(2,212,800)</b>	<b>34,557,361</b>	
<b>Expenditures</b>									
Salaries	20,499,231	22,857	(530,000)	19,992,088	(160,000)	19,832,088	(400,000)	19,432,088	0% merit remainder of year; seasonal staffing delays; managed vacancies, service reductions
Benefits	7,377,769	9,143	(200,000)	7,186,912	(22,000)	7,164,912		7,164,912	A total of 5.1% reduction from budget
Subtotal Compensation and Benefits	27,877,000	32,000	(730,000)	27,179,000	(182,000)	26,997,000	(400,000)	26,597,000	
Contributions and Welcome Centers	289,626		(6,161)	283,465	-	283,465	-4.7%	283,465	
All Other Operating Expenses	8,194,158	406,080	(919,982)	7,680,256	(156,898)	7,523,358	(224,679)	7,298,679	A total of 15% reduction from budget
Heavy Equipment Operating Charges	2,530,419	-	(253,042)	2,277,377	-	2,277,377	-	2,277,377	10% reduction
Heavy Equipment Replacement Charges	845,122	-	-	845,122	-	845,122	-	845,122	
Dispatch Services	661,194	-	-	661,194	-	661,194	-	661,194	
Total Expenditures	40,397,519	438,080	(1,909,185)	38,926,414	(338,898)	38,587,516	(624,679)	37,962,837	
Transfer to Marketing & Special Events Fund	(2,866,211)	(65,000)	50,000	(2,881,211)	288,121	(2,593,089)	-7.0%	(2,304,968)	Total of 20% cuts estimated
<b>Total Transfers</b>	<b>(2,866,211)</b>	<b>(65,000)</b>	<b>50,000</b>	<b>(2,881,211)</b>	<b>288,121</b>	<b>(2,593,089)</b>	<b>288,121</b>	<b>(2,304,968)</b>	
<b>Planning Projects</b>									
Vail 2030	(300,000)	-	300,000	-		-		-	Delay to 2021
Civic Area/Dobson Master Plan	(250,000)	-	50,000	(200,000)		(200,000)		(200,000)	20% reduction
West Vail Master Plan	(325,000)	-	-	(325,000)		(325,000)		(325,000)	
Vail Community Relief Fund	-	(500,000)	-	(500,000)		(500,000)		(500,000)	
<b>Total Expenditures</b>	<b>44,138,730</b>	<b>1,003,080</b>	<b>(2,309,185)</b>	<b>42,832,625</b>	<b>(627,019)</b>	<b>42,205,606</b>	<b>(912,800)</b>	<b>41,292,806</b>	
<b>Surplus (Deficit) Net of Transfers &amp; New Programs</b>	<b>(122,630)</b>			<b>(4,535,445)</b>	<b>(900,000)</b>	<b>(5,435,445)</b>	<b>(1,300,000)</b>	<b>(6,735,445)</b>	
Beginning Fund Balance	32,144,411	4,093,593		36,238,004	(900,000)	36,238,004	(1,300,000)	36,238,004	17% use of reserves
<b>Ending Fund Balance</b>	<b>\$ 32,021,782</b>			<b>\$ 31,702,559</b>		<b>\$ 30,802,559</b>		<b>\$ 29,502,560</b>	
As % of Annual Revenues *based on 2019	73%			73%		71%		68%	
EHOP balance included in ending fund balance - not spendable	\$ 890,000	\$ 466,400		\$ 1,190,000		\$ 1,190,000		\$ 1,190,000	Recognize \$116.4K equity return + \$350K