



Memorandum

TO: Vail Town Council

FROM: Finance Department

DATE: June 2, 2020

SUBJECT: Budgetary impacts of Public Health Crisis – Update.

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. Effective May 5th, the town implemented the “Major” level of recession plan. Over the last several 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 staff’s recommendation a transition to the **next phase of the town’s recession plan of “Crisis”**.

II. BACKGROUND

The original 2020 budget included revenue of \$73.8 million. As of May 5, Town Council approved moving from the “Significant” recession plan level to “Major”, with the below impacts outlined:

“Significant” Recession Plan as of April 7:

- A reduction in revenues of \$10M, or 13% of total revenues for the town.
- Corresponding reductions in expenditures of 10% department operating budgets, a freeze on wages and hiring, and utilization of reserves.
- Deferral of capital projects.

“Major” Recession Plan:

- A reduction in revenues of \$12M, or 16% of total revenues for the town.
- Corresponding reductions in expenditures of 10% department operating budgets, a freeze on wages and hiring, and utilization of reserves.
- Deferral of capital projects.

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 50, with the next phase permitting groups of up to 250 within four to eight weeks. Vail Resorts plans to gradually open lift operations, retail and lodging by late June or early July. The state of the public health crisis has already had 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.

A significant challenge in projecting revenue impacts to the town lies with sales tax and not having an adequate indication of performance until near the end of summer, when there will be less time to implement cost cutting measures. Collections for the month of April were reported at \$356K, a decrease of 75% from prior year. This is within the budget projection of an 80% decrease. Year to date collections of \$10.9M are down 21.5% from 2019.

Other revenue streams will be impacted as well, however 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 year to date collections are currently in line with that assumption. Construction Use Tax is trending lower than the budget, which will be adjusted downward in a "crisis" phase.

"Crisis" Recession Phase: In this phase the **town's revenues are projected to drop a total of \$15.3 million, or a 21% percent reduction** from the original budget. Again, a majority of the decrease relates to sales tax, with collections estimated at \$16.8 million, **a 41% drop from budget** and 43% from prior year. Additional reductions were also made to the other major revenue sources such as lift tax, parking and construction related revenues.

III. BUDGET REDUCTIONS

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 have been reduced depending upon anticipated visitation levels as public health orders are updated over time.

Reductions to offset the revenue shortfall of \$15.3 million will come from the following:

- Savings in staff vacancies, wage freeze, hiring freeze and furlough of summer seasonal employees \$2.0M.

- Operational savings across all funds of \$2.1M.
- A 30% estimated reduction in special events funding (includes both Commission on Special Events and council-funded Signature Events) of \$864K.
- \$25.4M in deferred capital spending in the Capital Projects Fund, RETT Fund and Heavy Equipment Fund. Capital investment in the InDEED program has not been reduced at this time.
- Use of General Fund reserves of \$6.0M toward offset of revenue shortfall. This represents a use of 16% of reserves, leaving an ending fund balance of \$29.8M, or 68% of revenues in a *normal* budget year compared to Council's directive of 35%. Within the General Fund, the revenue shortfall of \$10M is offset 40% through expense cuts and 60% with use of reserves.
- Use of reserves of \$500K for Community Relief Funds.

IV. NEXT STEPS

Staff has included the above budget adjustments for this "Crisis" phase in the budget ordinance reading this evening. As more public health orders and economic information becomes available staff will continue to monitor impacts to revenue and make recommendations as we move forward.