



## Memorandum

TO: Vail Town Council

FROM: Town Manager / Department Heads

DATE: September 1, 2020

SUBJECT: 2021 Budget Preview

### I. SUMMARY

The purpose of this meeting is to provide a high-level preview of the town's 2020 budget process and gather feedback from Council on preliminary budget assumptions. This feedback will be used for the creation of the 2021 draft proposed budget to be presented to Council on November 3rd. The final budget ordinance reading is scheduled for December 1st.

### II. BACKGROUND

Despite the need for ongoing budget cuts, departments are working to propose a budget that will include the most prioritized goals and initiatives stated as outlined in the Council Action Plan:



- **GROW A BALANCED COMMUNITY:** Engage our community on honoring our social, recreational, cultural, educational, and environmental values that will guide sustainable strategies throughout our neighborhoods as the foundation of our town's continued success.

- **ELEVATE THE EXPERIENCE:** Deliver on the promise, “VAIL, Like nothing on earth,” that also supports “preserving our earth,” in everything we do.
- **ENHANCE THE LOCAL ECONOMY:** Preserve our vibrant and diverse economy that keeps Vail at the forefront of our resort competitors.
- **PRESERVE OUR NATURAL ENVIROMENT:** Balance our economic, environmental, and social needs to deliver a sustainable community.

In addition to the key initiatives in the Council Action Plan, there are standard budget philosophies and practices developed over time and agreed to or revised by Council that are used to develop the budget.

**These budget philosophies have been adjusted to reflect the critical economic climate by allowing use of reserves when necessary to maintain town services, altering the split of sales tax toward the General Fund as conditions worsen, and maintain the minimum General Fund fund balance at 35% of annual revenues in a “normal” year, or approximately \$15M.**

### III. BUILDING THE BUDGET

The base information to begin the budget process consists of revenue projections and reserve levels. Reserves have been adjusted to reflect budget appropriations that occurred mid-year.

#### **Revenue Projections:**

Revenue projections set the stage for direction given to the internal departments regarding annual operating expenditures. Staff is proposing a **conservative approach to revenue projections** based on an uncertain economic outlook. Three projections are provided for sales tax collections, which normally represent 40% of the town’s revenue streams. A 7-year lookback of major revenue to accompany the 2021 proposed projections are included in **Appendix A**.

The town’s 2021 budget is funded by a **projected \$62.5 million**, up 2.0% from the 2020 forecast and a 22% decrease from the 2019 actual results. The decrease is entirely attributable to the economic impacts of COVID-19 to sales tax, lift tax and parking revenues.

Sales tax had a really strong start in 2020, however by mid-March we began to feel the impacts of business closures and public health orders. Sales tax collection were down nearly 50% in March from the prior year, down 71% in April and then rebounded somewhat with decreases of 35%, 36% and 19% in May, June and July, respectively. Year to date is down 23% from 2019. The annual budget for 2020 has been amended to reflect a decrease of 43% compared to prior year. With the summer faring better than expected, staff is forecasting 2020 sales tax collections of \$18.6M. The forecast uses year-to-date actuals and assumes August is down 40%, Sept/Oct down 60% and Nov/Dec down 70%. This is a conservative approach, especially the winter month of December considering recent announcements by Vail Resorts on winter mountain operations.

RETT Tax is proposed at \$6.3 million, flat with the 2020 budget. RETT is on track to make budget in 2020 and has remained stable throughout the COVID-19 crisis.

Parking revenues are proposed at \$4.3 million, slightly up from 2020 forecast and a 36% decrease from 2019. This assumes the town remains in a “Crisis” level recession plan.

Property tax collections are estimated at \$5.9 million, flat with 2020. A more accurate estimate will be available in August, when the County Assessor releases initial projections. With reassessment in 2021, there will be a significant reduction in residential taxes again due to the Gallagher Amendment for taxes collected in 2022. The Gallagher Amendment reduced the residential multiplier from 7.96% in 2017 to 7.2% in 2019 and reduced to 7.15% in 2020. The current estimate is a reduction in the residential rate to 5.88 in 2021. These reductions have cost the town \$1.3M over the last three years and will cost \$1.4M in 2022. This is a significant impact to the town’s General Fund and will affect service levels if a ballot measure doesn’t pass.

Construction Use Tax is proposed at \$1.8 million for 2021, flat with 2020 forecast. This projection may increase as staff is reviewing upcoming major redevelopment projects such as Marriott Residence Inn, Park Meadows, Elevation and Lions View. Construction fees such as building permits, plan check fees, and design review fees are proposed at \$1.9M for 2021, also flat with the 2020 forecast.

Staff is pursuing grant opportunities for bus service and capital projects. The revenue is not reflected at this time until more information is available.

**Across all funds, the proposed 2021 revenue has been impacted with a decrease of over \$17M from revenues collected in 2019 due to the economic impacts of COVID-19. It is anticipated that a return to 2019 revenue levels would take the next three years. This will factor in to upcoming 2021 Budget discussions with Town Council about service levels, capital projects and reserves.**

### **Operating Budget:**

In response to the economic impacts of COVID-19, the town implemented \$3.47 in expenditure cuts (and bus/parking service closure). \$6.0M of General Fund reserves were used to help offset revenue shortfalls, fund \$1.5M in relief programs and new/unexpected COVID-related expenditures.

The proposed budget for 2021 will include three recession plan levels of operations for Council's consideration. At this time, staff recommends remaining at the 'Crisis' level of recession plan for the proposed 2021 budget (middle option). However, town staff will be prepared with additional operating plans if revenues improve to "Major" or worsen to "Critical".

### **Reserves & Capital Plan**

**Town reserves were \$90 million at the end of 2019.** The town has since used some of these reserves to fund events, housing, and to cash fund major capital projects. With the dramatic and immediate economic impacts of COVID-19, Council approved using reserves to help fund relief programs and to offset revenue losses. Reserves are projected to be \$65.4 million at the end of 2020. Additional reserve use will be necessary in 2021 given uncertainty in revenue collections, even with additional cuts in town services and spending.

The above reserve balances do not include funds restricted for use such as the Heavy Equipment Fund, Health Insurance Fund, Dispatch Services Fund or the Vail Reinvestment Authority (VRA). VRA funds are restricted to capital improvements within the urban renewal authority or TIF district.

While the Vail Reinvestment Authority is another source of funds for projects in the district, there will not be significant funds available until 2023 due to the Sandstone Underpass project and the new parking structure at Red Sandstone Elementary. The VRA does have debt capacity however, for future projects such as improvements resulting from a Civic Area Master Plan.

**The VRA funds MUST BE used by June 30, 2030.**

Staff will return on October 6<sup>th</sup> with the five-year capital plan.

### **ACTION REQUESTED**

The feedback given during this work session will help establish a foundation from which to build the 2021 budget and is not considered an "approval" of any particular item within the budget. Upcoming budget presentations will provide more opportunities for adjustments. However, in order to give direction to departments in beginning to build their budgets, staff is requesting feedback on the following:

1. Does Council agree with the standard budget philosophies and practices?
2. Does Council have comments on staff's preliminary revenue assumptions?
3. Is there anything else you would like staff to be aware of as we build the budget?

Major Revenue Analysis  
2021 Proposed Budget

	2014	2015	2016	2017	2018	2019	2020	2020	2021	
	Actual	Actual	Actual	Actual	Actual	Actual	Amended	Forecast	Proposed	Comments
General Sales Tax	23,881,130	25,141,932	25,763,244	25,591,483	27,886,113	29,250,698	16,800,000	18,600,000	18,630,000	2021 proposed flat with 2020 forecast and 36% down from 2019
	8.6%	5.3%	2.5%	-0.7%	9.0%				0.2%	
RETT Tax	6,849,449	6,965,617	6,843,356	6,313,611	7,649,013	7,224,668	6,300,000	6,300,000	6,300,000	2021 flat with 2020
	44.9%	1.7%	-1.8%	-7.7%	21.2%				0.0%	
Parking Revenue	4,528,137	4,948,993	5,230,062	4,902,756	6,416,013	6,720,873	4,214,400	4,000,000	4,301,359	2021 7.5% increase from 2020 Forecast and decrease of 36% from 2019
	17.9%	9.3%	5.7%	-6.3%	30.9%				7.5%	
Property & Ownership Tax	4,358,411	4,389,241	4,911,842	4,940,193	5,313,730	5,369,376	5,900,000	5,900,000	5,900,000	Not updated for change in valuations (coming in August) ;Gallagher impact will hit in 2022
	0.1%	0.7%	11.9%	0.6%	7.6%				0.0%	
Lift Tax Revenue	4,351,624	4,763,956	5,032,970	4,708,765	5,103,480	5,341,369	3,880,000	3,456,000	3,162,000	2021 proposed at a decrease of 8.5% from 2020 forecast and a 41% decrease from 2019 actuals
	15.1%	9.5%	5.6%	-6.4%	8.4%				-8.5%	
Construction Fees	2,608,807	1,949,884	1,552,569	1,628,471	2,958,948	1,998,540	1,694,000	1,921,366	1,900,000	2021 flat with 2020 forecast plus Marriott Residence Inn, Park Meadows, Elevation & Lion's View
	4.4%	-25.3%	-20.4%	4.9%	81.7%				-1.1%	
Construction Use Tax	1,803,853	2,220,168	1,688,841	1,740,754	3,689,131	2,467,928	1,800,000	1,500,000	1,800,000	2021 flat with 2020 plus new developments; 20% increase from forecast
	0.2%	23.1%	-23.9%	3.1%	111.9%				20.0%	2018 included \$1.9M from Vail Health project
Other Taxes	1,829,591	1,886,347	1,812,997	1,803,508	1,982,124	2,089,579	1,588,600	1,588,600	1,554,354	County sales tax (based on TOV sales tax), Road & Bridge, Hwy users revenue, etc.
	5.6%	3.1%	-3.9%	-0.5%	9.9%				-2.2%	
Federal / County Grants	474,399	152,193	184,827	169,883	1,546,528	1,035,711	2,283,747	2,253,747	20,000	2020 \$1.1M FASTER electric bus chargers grant; \$525K CDOT bus grant; \$250K PD Hope Grant
	-45.6%	-67.9%	21.4%	-8.1%	810.3%				-99.1%	2019:\$895 Federal Bridge Rd Bridge Grant
										2018 includes \$700K CDOT Water Quality "TAP" grant; \$675.1K FASTER bus grant
Earnings on Investments	674,027	271,896	191,992	563,885	1,123,184	2,206,334	700,719	500,000	449,900	Based on available fund balance and investment returns assumed at 0.2%
	57.9%	-59.7%	-29.4%	193.7%	99.2%				-10.0%	
Rental Income	1,044,463	1,028,950	1,019,509	1,027,199	1,064,569	1,139,700	875,257	875,257	940,499	Includes Donovan Pavilion at \$200K, a 41% decrease form 2019 plus employee housing rentals and parking structure leases
	24.2%	-1.5%	-0.9%	0.8%	3.6%				7.5%	
E911 and Interagency Dispatch	1,931,359	1,896,010	1,918,590	2,008,451	2,055,844	2,159,084	2,174,982	2,174,982	2,174,982	Funding by E911 Authority Board and participating agencies
	-2.6%	-1.8%	1.2%	4.7%	2.4%				0.0%	Assume flat for 2021
Vail Reinvestment Authority Transfers	3,049,280	2,757,637	3,546,063	4,179,718	4,599,998	3,804,281	1,655,291	1,655,291	7,550,000	2021: \$7.5M Vail Health Frontage Rd Improvements; 2020: \$1.5M Red Sandstone Parking Lot
	65.5%	-9.6%	28.6%	17.9%	10.1%				356.1%	
Sale of Chamonix Housing Units	-	-	-	-	17,748,304	-	-	-	0.0%	
Project Reimbursement Red Sandstone	-	-	-	-	5,800,000	-	-	-	0.0%	2018: \$4.3M from Vail Resorts; \$1.5 from Eagle County School District cost share of RSES parking structure
CARES Transit Grant				-	-	-	1,347,000	1,347,000	-	
CARES Grant - State share				-	-	-	-	1,449,000	-	
All Other Revenue	7,522,484	9,577,305	7,783,483	7,358,044	8,339,104	9,413,132	7,456,369	7,755,889	7,817,893	In general, this item includes franchise fees, fines and forfeitures, employee portion of healthcare premiums, license revenue, administration fees collected from VLMD and RETT and other charges
	59.2%	27.3%	-18.7%	-5.5%	13.3%				0.8%	for service such as out of district fire response and Police contracted services. It may also include use of Traffic Impact fees or Holy Cross Community Enhancement Funds
Total Revenue	64,907,014	67,950,130	67,480,345	66,936,720	103,276,083	80,221,274	58,670,365	61,277,132	62,500,987	
% compared to Prior Year	21.1%	4.7%	-0.7%	-0.8%	54.3%					
					19.1%				2.0%	vs. 2020 Forecast
									-22.1%	vs. 2019 Actual