



# COVID-19 2020 Budget Implications

Presented to Duluth City Council

Monday, April 27, 2020

## What we know

- State of MN = Stay At Home
- There will be a shortfall in budgeted City revenues
- The economy is facing a recessionary dip

## What we don't know

- Length of time for Stay At Home
- Amount of revenue shortfall
- How long the recession will last



# Revenue Shortfalls Based On:

- Analyzing monthly revenue collections
- Comparing revenue impacts of Great Recession
- Strategizing with other MN Cities
- Tuning in to economic market outlooks
- State of MN & Federal Government



# Sales and Use Taxes

## General Fund

- \$14 million budgeted
- Projected shortfall of 20% - 50%
- Projected revenue shortfall \$2.8 million - \$7 million



## Street Improvement Fund (Special Revenue Fund)

- \$7.5 million budgeted
- Projected shortfall of 20% - 50%
- Projected revenue shortfall \$1.4 million - \$4 million
- Revised 16.7 miles of roadwork



**Of Note: Delayed Collection**

# City Property Tax Collections



## General Fund

- \$22 million budgeted
- Projected shortfall of 5% - 20%
- Projected revenue shortfall \$1.1 million - \$4.4 million

## Parks Fund (Special Revenue Fund at a Fixed Rate of \$5 per month)

- \$2.6 million property tax referendum
- Projected shortfall of 5% - 20%
- Projected revenue shortfall \$130 thousand - \$520 thousand

## Other Funds (Debt Fund, Street Light Fund, Streets Fund, Public Improvement Funds)

- \$11.4 million budgeted
- Projected shortfall 5%-20%
- Projected revenue shortfall \$565 thousand - \$2.26 million



# Tourism Taxes

## Special Revenue Fund

- 2020 tourism tax budgeted revenues \$12 million allocated to 19 entities
- Projected shortfall 50% - 75%
- Projected revenue shortfall \$6 million - \$9 million
- Fixed Commitments Including Debt Service - \$6.7 million
- City benefits by \$1.1M transfer to cover lakewalk, parks & event costs



# Licenses, Permits, and Inspection Fees

## General Fund

- Licenses and Permits budgeted \$2 million
- Projected shortfall of 10% - 25%
- Projected revenue shortfall \$200 thousand - \$500 thousand
  
- Inspection Fees budgeted \$7 million
- Projected shortfall of 10% - 25%
- Projected revenue shortfall \$700 thousand - \$1.7 million



# Parking

## Enterprise Fund

- 2020 budgeted revenues \$4 million
- Projected shortfall 10% - 25%
- Projected revenue shortfall \$400 thousand - \$1 million
- 2020 budgeted transfer to the General Fund \$1.3 million



# Comfort Systems Utilities

## Enterprise Funds

- Storm Water and Gas Utility Funds – Minimal impacts expected. No operational or capital project impacts.
- Water and Sewer Utility Funds – Expect modest reduction in revenues from reduced usage due to businesses slowdowns and shutdowns. No operational or capital project impacts.
- Expect an overall increase in delinquent utility bills. We are unable to quantify the financial impact at this point in time.



# COVID-19 Expenses not included in Budget

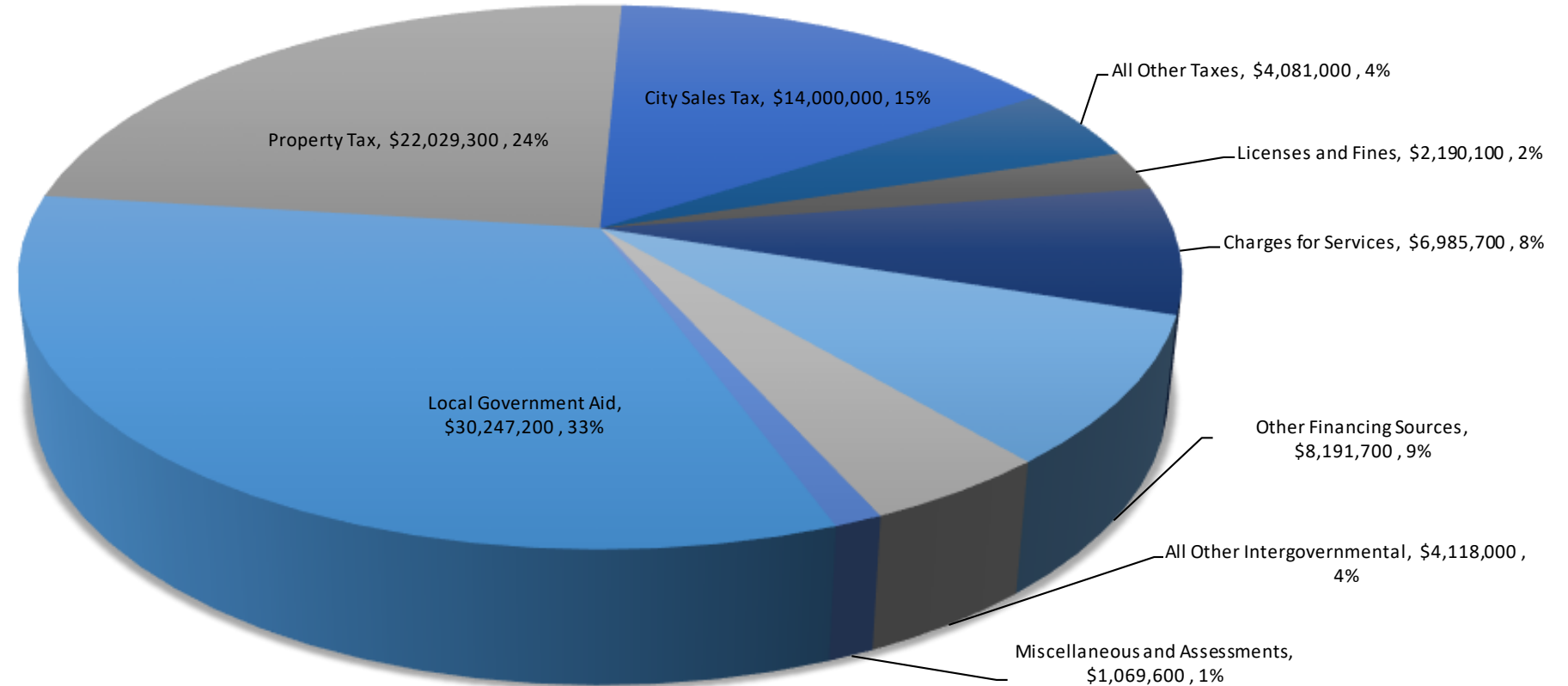
- Worker's compensation exposure - \$3.8 million
- CARES Act FMLA and Emergency sick leave exposure – \$3.5 million
- Personal protection equipment and supplies - \$56 thousand
- Remote working environment expenses - \$54 thousand



# Total Projected 2020 COVID Related Shortfalls

Sales Tax to General Fund	\$2.8M - \$7M
Streets Sales Tax	\$1.4M - \$4M
Tourism Tax	\$6M - \$9M
City Property Tax Levy	\$1.7 - \$7.1M
Parks Levy	\$130K - \$520K
Licenses & Permits	\$200K - \$500K
Inspection Fees	\$700K - \$1.7M
Parking Revenues	\$400K - \$1M
<u>Additional COVID19</u>	<u>\$7.4M</u>
Totals	\$20.73M - \$38.22M

# 2020 Budgeted General Fund Revenue Sources



2020 Total Budgeted General Fund Revenue  
\$92,912,600



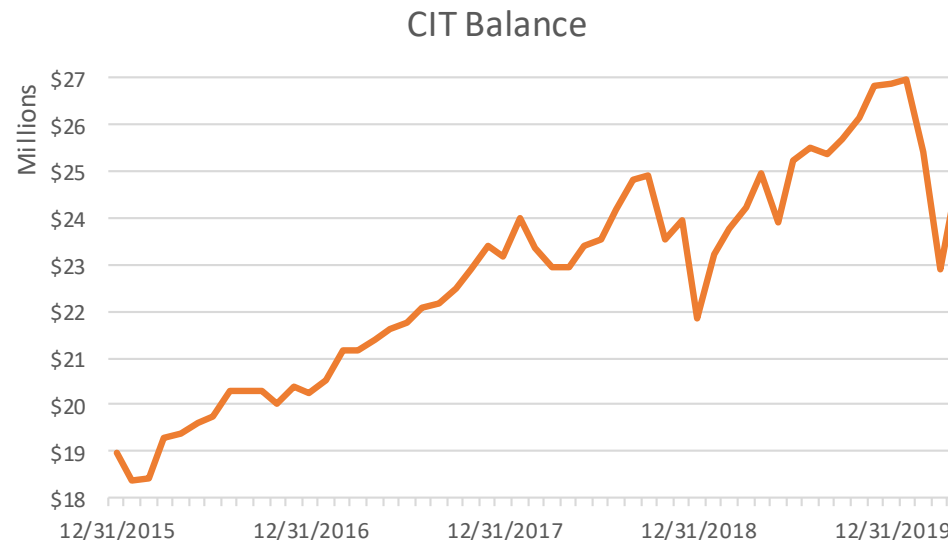
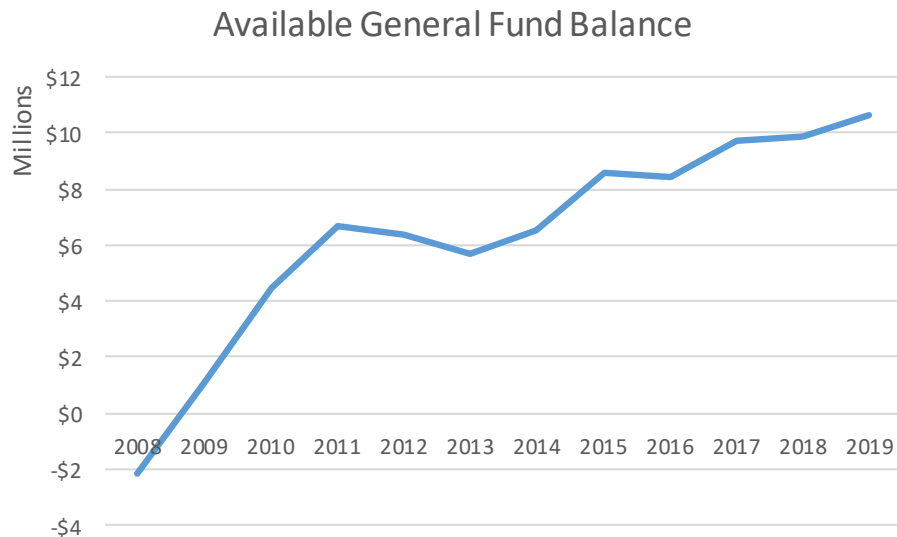
# Addressing Revenue Shortfalls

- Closure of Facilities: public buildings and social / recreation activities
- Focus of operating expenses: no travel, purchasing, etc.
- Hiring Freeze
- Temporary and seasonal employee layoffs
- Layoffs of full-time staff
- Use of fund balance reserves
- Planning with all Bargaining Units
- Federal and State funding available



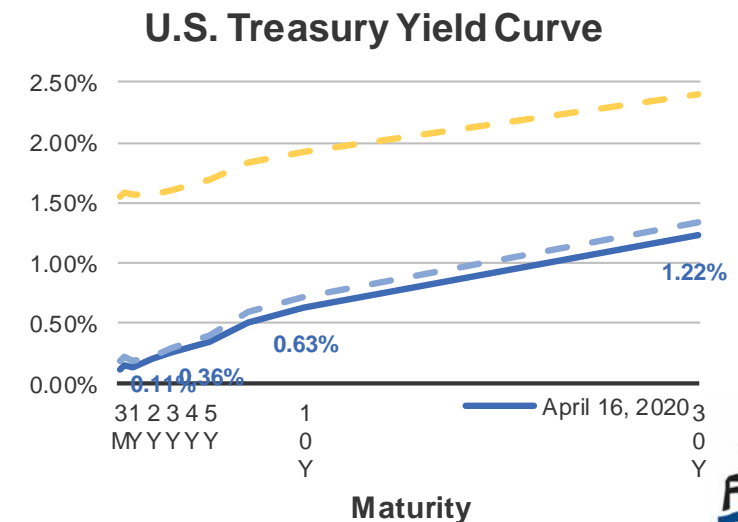
# Fund Balance and Reserves

- Current available General Fund reserves \$10.6 million
- Current CIT fund balance \$24.5 million (the CIT fund secures the City's bond rating)
- City's bond rating is AA stable



# Tracking Key Economic Indicators

- MN jobless claims 496,735 March 16 – April 16 (MN DEED)
- St Louis County unemployment insurance applications – 19,236 since March 16; 19% of total labor force, of which 21% are food service and restaurant industry (MN DEED)
- Long-term treasury yield 1.27% (US Dept of Treasury)
- US Treasury Yield curve – normal (Bloomberg)
- Projected 2020 US GDP contraction -5.4% (MN Senate 4/6/20)
- Projected full recovery 2022 (various sources)



Source: Bloomberg as of 4/16/20



# Focused City Initiatives During the Pandemic

- CareerForce: Unemployment Insurance Claims
- DEDA: Duluth Small Business Emergency Fund
- 1200 Fund: Fast Grants program \$1.2 million
- Streets for 2020
- Staffing significant community outreach
- Curbside Library Service & Virtual Storytimes
- Variable Staffing in Public Safety to protect Public Safety
- Mask Drive, Keep Duluth Clean,
- Street Closures for Social Distance Outdoor Experiences

