

To: **Mayor and City Council**  
Through: **Ryan Schroeder, City Manager**  
From: **Char Stark, Finance Director**  
Date: **April 27, 2020**

## **2020 Financial Update with Projections**

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### **BACKGROUND INFORMATION:**

City Manager Schroeder any I thought it would be beneficial to update the Council on the current financial position of several of our key funds that have been impacted by the Statewide shut down due to the coronavirus. As you are aware, the State has initiated several shut downs of schools and business across Minnesota. Below is the time line of those executive orders.

- March 13: Executive Order 20-01 Governor Waltz declared peacetime emergency.
- March 15: Executive Order 20-02 Ordering of the shutdown of schools to begin March 18 or Sooner.
- March 16: Executive Order 20-04 Ordering the closing of restaurants and bars.
- March 18: City closed City hall and moved information to the lobby for citizens to request licenses, permits and conduct other City business with email, telephone or walk-in to the lobby and utilize the phone system set up in the lobby.
- March 25: Executive order 20-20 Directing Minnesotans to stay at Home. Non-essential business were closed per this order.
- March 30: City Staff began to work from home via WebEx and email.

The City followed this direction and shut down the Civic Arena, Dome and cancelled park and recreation events through May, as well as the City Open House, State of the City and other outreach programs for the months of April and May. Attached to this document is a summary of the General Fund, Civic Arena Fund and the Recreational Athletic Complex (RAC) Fund. These funds have had the most impact due to shutting down of programs that produce revenue to fund the various activities. While some programs have offsetting expense savings that cover some of the revenue losses, the RAC fund has substantial revenue losses that will affect the cash flow of that fund.

The projections are out until September. While, at this time, we do not anticipate the shutdown lasting that long, the impact of late starts to programming may end up affecting the City out until that time.

### **General Fund**

There are several open positions that have been left unfilled due to the shutdown. These positions are providing a significant savings to the General Fund for the time being. These savings are offsetting the loss of park and recreation programming revenue.

### **Civic Arena**

Upon closing of the arena, the two arena employees were transferred to the street department for the period of the ongoing shutdown. This will allow the loss of the revenues from summer programming to be absorbed by the transferring of the personnel costs to the General Fund and allowing for continued employment of these City employees, as well as providing additional staff support in the street department.

### **RAC (Recreational Athletic Complex)**

The closing of the RAC has the largest impact to the City's finances, as the savings from not paying contracted services does not outweigh the income from the summer programs. A continued shutdown for this program will have even larger impacts as the fall/winter programs bring in the bulk of the revenues for this fund. Possible funding for this shortage is current cash balance of the fund, while not meeting the cash goal set for the fund is healthy enough to withstand some reduction on a short-term basis. Eliminate the \$50,000 transfer to the General Fund in 2020 and in 2021. The other option is discussed below in the debt section of this memo.

### **Debt**

As part of the financial plan, City management has a goal to lower the City's outstanding debt as expediently as possible but without harm to the City's cash flow. The plan was to call the 2013 bond in August. A decision on this piece will need to be made before the second Council meeting in May. If not called, the money that has accumulated can be utilized for other needs per Council directive. By not calling the bonds, this allows the City to have some flexibility in options to consider. The road construction program and the RAC fund are two likely candidates for reallocation of this money.

### **CIP-CEP (Capital Improvement Plan – Capital Equipment Plan)**

The equipment and infrastructure needs of the City are largely funded by Local Government Aid (LGA), utility franchise fee, and sales tax. The two revenue sources that may be impacted by the shutdown is the LGA and the sales tax. Because of that possibility, an outline of potential changes to the CEP-CIP are as follows:

Road construction projects are being largely funded by the newly enacted city local sales tax. The collections began in January of this year. As anticipated, the January through February collections are being collected at a slower pace, as the business community gets the sales tax added to their collection systems. With the coronavirus pandemic, the slowdown may continue through September. This will result in a cash flow situation for the road construction project in 2021.

Equipment replacement is largely funded by the LGA. In the past, when the economy has slowed, the State has had to reduce the funding to the Cities, sometimes at the end of the calendar year. If that were to happen at the end of this calendar year, a list of possible reductions/deferment is provided in order for us to be proactive in a reduction to cash flow in the vehicle and equipment fund.

In the 2020 budget, possible un-allocating of LGA to the following would decrease the impact to current operations but would impact future plans or delay the financial goal of increasing cash flow:

- \$180,000 in the debt reduction
- \$ 80,000 warming house replacement

In the 2021 budget (in the order of preference):

- \$100,000 in the City Hall replacement (partial reduction)
- \$100,000 in the debt reduction fund

- \$ 58,000 for the pool equipment/amenities. Delay in improvements/repairs.
- Warming house replacement: \$90,000 and \$100,000 in 2022.

**FISCAL IMPACT:**

		<b>Amount</b>
<b>Fund:</b>	<b>Various</b>	<b>Overall projected amount (187,021)</b>
<b>Department:</b>		
<b>Account:</b>		

**STAFF RECOMMENDATION:**

Request for direction on the calling of bonds or holding off until 2021. The will allow for more information on the impact of the shutdown on City operations and allow for flexibility to fund the shortages that may occur.

Request to adjust the budget in the General Fund and the RAC Fund for the \$50,000 transfer from the RAC to the General Fund. Offsetting savings will allow the General Fund to absorb this loss of revenue.

During the 2021-2022 budget process, additional information will be provided, as well as continued discussion on how to manage the financial impact on the funds involved. In addition, if the loss of LGA becomes a reality how will the City manage that loss.