



**CITY OF MIRAMAR**  
**OFFICE OF THE CITY MANAGER**  
**INTER-OFFICE MEMORANDUM**

**TO:** Mayor, Vice Mayor and Commissioners

**FROM:** Vernon E. Hargray, City Manager

**DATE:** May 18, 2020

**RE:** Fiscal Year 2020 - Possible Fiscal Impact on Revenues due to COVID-19 – Memo #3

On April 16<sup>th</sup>, memo # 20-M-51 was issued highlighting the “Possible Fiscal Impact on Revenues due to COVID-19” to provide the Commission with information on how this global pandemic may affect the City’s finances (attached). A second memorandum, 20-M-52 dated April 24<sup>th</sup> was issued, outlining my recommendations to combat the negative financial effects on the City’s budget (attached). That document discussed personnel action, strategies surrounding our stabilization and emergency funding and measures executed at that time, in addition to reopening strategies. Since then, City Administration has worked diligently, in collaboration with all City Departments, to minimize expenses and to stick to the strategies outlined.

It is necessary to reiterate the general fund position previously outlined as the basis for the current decisions using the projection model, which incorporates financial data posted through February 29, 2020, analyzes revenue and expenditure trends over the past 5 months and includes historical trends (including pre-recession and post-recession trends).

**Specific attention should be made to the General Fund Revenue Analysis, where *Potentially Delayed Revenues* and *Potentially Lost Revenues* are explained. In addition, the Summary of Revenue Impact which follows, gives a comprehensive snapshot of the \$23M projected loss of revenue.**

**Analysis:** The potential fiscal impact to the City of Miramar based on current economic market conditions and the following assumptions are as follows:

- We anticipate that not all local businesses will resume operations immediately and some may not re-open at all.
- Even as businesses and City facilities re-open, we anticipate that the economic impact to City revenues will be substantial and may mimic or possibly exceed prior recessionary trends.

- At least 90% of the outstanding property tax payments were received as of February 29<sup>th</sup>, pursuant to the State's Order of Emergency Waiver which extended the deadline for property tax payments from March 30, 2020 to April 15, 2020.
- Given that most of the City's largest revenue source, property taxes, have already been collected and other revenues will not materialize until after year end, we anticipate some cash flow issues through the end of the Fiscal Year.

**General Fund Revenue Analysis:** Approximately 63% of the General Fund revenues have been collected through the end of February. This is attributable to 90% of property tax revenues and 90% of special assessment Non-Ad Valorem being collected.

For the purposes of this analysis, we have separated General Fund revenues into two categories: *Potentially Delayed Revenues* and *Potentially Lost Revenues*.

### **Potentially Delayed Revenues**

Certain revenue sources are expected to be received later than the usual timing of collection once normal operations resume, but those collections may not occur until FY 2021. We have categorized these revenues as Potentially Delayed Revenues. After a thorough review of the City's General Fund revenue sources, we anticipate delays with the following revenue sources:

- **Property Taxes:** As previously stated, nearly 90% of the budgeted property tax revenues have been collected.
- **Special Assessment (non-Ad Valorem):** 90% of the budgeted special assessment revenues have been collected.
- **Communication Taxes:** This revenue is approximately two months behind in collection; however, the City anticipates an 8% reduction from the budgeted amount which equates to (\$332,000) by the end of the Fiscal Year.

We anticipate that at least 95% of the outstanding Ad Valorem tax payments and the special assessment revenues will be collected by the end of the Fiscal Year. These revenues are collected by the Broward County Property Appraiser Office and remitted to the City.

### **Potentially Lost Revenues**

Most of the revenues which will be collected are expected to be reduced over the next six months. However, there are several revenue sources that may not be collected or recaptured for every month the *Safer at Home* order remains in effect. These revenues include but are not limited to:

**General Taxes:**

- **Utility Taxes & Franchise Fees:** Florida Power & Light recently announced a request made to the Florida Public Service Commission for a one-time reduction of nearly 25% to residential customers and an equally significant reduction for businesses. We anticipate that the one-time reduction will result in reduced electric utility taxes and electric franchise fees revenues remitted to the City. Additionally, non-essential business closures are expected to further reduce these revenue sources for every month closed.

**Estimated Revenue Loss: Utility Approximately (\$2,960,000) and Franchise Approximately (\$1,858,480)**

**Intergovernmental Revenues:**

- **Local Government Half Cent Sales Tax:** Approximately 39% of the budgeted sales tax revenues have been collected as of February. This revenue is typically remitted two months in arrears by the State. As such, the current analysis assumes that sales tax revenues earned prior to the executive order, will be received as expected for the next two months. For the remaining four months, sales tax revenue losses are expected to be 20% less than budgeted.

**Estimated Revenue Loss: Approximately (\$2,000,000)**

- **State Revenue Sharing:** This revenue represents Sales and Use taxes and Fuel Tax on motor vehicles. With the *Safer at Homes Order* this revenue is projected to be at 20% less than budgeted.

**Estimated Revenue Loss: Approximately (\$800,000)**

**Charges for Services:**

- Approximately 39% of the budgeted revenues have been collected as of February 29th. The department revenues that will be impacted are Parks and Recreation, Child Care facilities and Cultural Arts (MCC). Charges for services revenues will decline as the economic crisis prolongs and the City cancels revenue generating events and programming such as summer camps, aquatic summer programs, athletic programs, admission fees, banquet hall rentals, box office sales, facilities rentals and all associated concession revenue. We estimate that this will be one of the most significantly impacted general fund revenue categories with an estimated 28% reduction from the budgeted revenues.

**Estimated Revenue Loss: Approximately (5,315,412)**

**Miscellaneous Revenues:**

- **Interest Earnings:** Recent federal cuts of interest rates are beneficial for borrowing; however, it can negatively impact interest earnings on investments. Due to the uncertainties with interest rates, this analysis conservatively estimates low interest earnings through the end of the Fiscal Year.

**Estimated Revenue Loss: Approximately (\$600,000)**

Overall, the General Fund revenue projections reflect a **shortfall of approximately \$23.1 million**. This is a conservative projection and will certainly change as information becomes available. Table 1, below, is a summary of the elements that make up the projected revenue loss:

**Table 1: Summary of Revenue Impact**

| REVENUE TYPE                  | FY20 REVISED BUDGET  | FY20 YTD ACTUAL      | % COLLECTED | FY20 PROJECTION      | % PROJECTED | \$ VARIANCE         |
|-------------------------------|----------------------|----------------------|-------------|----------------------|-------------|---------------------|
| Ad Valorem Taxes              | (72,472,800)         | (65,302,136)         | 90%         | (68,849,160)         | 95%         | (3,623,640)         |
| Utility Taxes                 | (11,480,000)         | (3,847,861)          | 34%         | (9,184,000)          | 80%         | (2,296,000)         |
| Communications Service Tax    | (4,332,000)          | (931,944)            | 22%         | (4,000,000)          | 92%         | (332,000)           |
| Local Business Tax            | (2,295,000)          | (2,075,346)          | 90%         | (2,134,350)          | 93%         | (160,650)           |
| Insurance Premium Tax         | (2,100,000)          | -                    | 0%          | (2,100,000)          | 100%        | -                   |
| Franchise Fees                | (9,292,400)          | (2,619,606)          | 28%         | (7,433,920)          | 80%         | (1,858,480)         |
| Licenses and Permits          | (6,185,500)          | (5,781,077)          | 93%         | (6,185,500)          | 100%        | -                   |
| Special Assessment            | (22,250,000)         | (19,853,400)         | 89%         | (21,137,500)         | 95%         | (1,112,500)         |
| Intergovernmental             | (15,809,320)         | (4,105,046)          | 26%         | (11,856,990)         | 75%         | (3,952,330)         |
| Charges for Services          | (18,926,023)         | (7,389,862)          | 39%         | (13,610,611)         | 72%         | (5,315,412)         |
| Fines and Forfeitures         | (704,000)            | (249,252)            | 35%         | (249,252)            | 35%         | (454,748)           |
| Miscellaneous                 | (7,283,433)          | (1,677,232)          | 23%         | (3,248,697)          | 45%         | (4,034,736)         |
| Transfers In                  | (3,498,164)          | (1,282,161)          | 37%         | (3,498,164)          | 100%        | -                   |
| Appropriation of Fund Balance | (4,654,734)          | -                    | 0%          | (4,654,734)          | 100%        | -                   |
| <b>Grand Total</b>            | <b>(181,283,373)</b> | <b>(115,114,924)</b> | <b>63%</b>  | <b>(158,142,877)</b> | <b>87%</b>  | <b>(23,140,497)</b> |

**General Fund Expenditures Analysis:** The General Fund expenditures are trending as expected with an estimated \$22.5M savings by the end of the Fiscal Year. Table 2 below shows a breakdown of the projected savings:

**Please note:** The totals do not reflect departmental recommendations for line items which could provide additional cost savings. Furloughs are a last resort and can be minimized if a portion of the Emergency Preparedness, the Stabilization and the Unassigned reserve balance are used to offset any potential delayed or lost revenues.

**Table 2: General Fund Expenditure Projection**

| Department                           | Vacancies | Furlough/<br>Salary Savings | Operational | Total      |
|--------------------------------------|-----------|-----------------------------|-------------|------------|
| 06 - Human Resources                 | -         | 172,911                     | 266,439     | 439,350    |
| 10 - Finance                         | 118,155   | 453,852                     | 176,373     | 748,380    |
| 11 - Procurement                     | 71,700    | 108,168                     | 27,314      | 207,182    |
| 15 - Management & Budget             | 25,799    | 227,527                     | 15,542      | 268,868    |
| 20 - Police                          | 384,890   | 7,382,649                   | 392,700     | 8,160,239  |
| 30 - Fire-Rescue                     | 128,222   | 5,438,045                   | 237,600     | 5,803,867  |
| 41 - Community Development           | 28,697    | 758,546                     | 137,615     | 924,858    |
| 43 - Economic & Business Development | -         | -                           | 244,470     | 244,470    |
| 50 - Public Works                    | 320,334   | 351,412                     | 1,195,305   | 1,867,051  |
| 60 - Parks & Recreation              | 244,987   | 903,460                     | 1,023,876   | 2,172,323  |
| 63 - Community Services              | 282,497   | 659,998                     | 108,586     | 1,051,081  |
| 68 - Cultural Affairs                | 6,584     | 75,088                      | 491,333     | 573,005    |
|                                      |           |                             |             |            |
| TOTAL                                | 1,611,865 | 16,531,656                  | 4,317,153   | 22,460,674 |

Based on current trends, the following assumptions have been made:

**Salary and Benefits:** Salary expenditures over the past six months will not continue at the same rate through the end of the Fiscal Year.

1. Freeze new hires
2. Do not fill existing vacancies during FY20
3. Impose a moratorium on salary increases (i.e., promotions & reclassifications) throughout FY20
4. Introduction of furloughs/salary savings

**Operating Expenditures:** Currently the monthly expenditures are averaging \$14.5M. In order to reduce spending, the following directives were issued:

1. Suspension of non-emergency goods and services unless justification and approval are provided by the Department Director and CFO.
2. Purchasing card approval required prior to spending action.
3. Departments are encouraged to review current contracts to determine if services can be delayed during the declared emergency.
4. Delay in contact services where possible/necessary.
5. No overtime, unless approved by the City Manager (excludes Police, Fire and Utilities).
6. Suspension of all travel and training. Departments are required to explore other options (i.e. webinars, virtual sessions).
7. Suspend memberships, subscriptions and donations to other agencies for the remainder of the Fiscal Year.
8. Reduction in discretionary spending in certain operating accounts such as office supplies and materials are expected as a result of employee

telecommuting and City facility closure.

9. Suspend City events.
10. Paperless operations, leveraging available technology to enhance services and reduce costs.
11. Continue to explore energy saving opportunities.
12. Work with the Procurement Department to review open requisitions and open purchase orders that are no longer needed to ensure timely closure in order to release encumbered funds.

**Capital Outlay:**

1. Deferral of non-essential capital purchases.
2. Reduce the scope of capital investments.

**Current measures being executed:**

1. Overall department budget reductions of 5%, 10%, 15% in all expense categories throughout the remainder of the Fiscal Year
2. Relocating stagnant employees to other duties temporarily
3. Exploring new revenue sources based on CARES Act stimulus package and FEMA
4. Exploring grant revenue sources with the Florida Division of Emergency Management (FDEM) for COVID-19 Pandemic Request for Public Assistance

As a reminder, the April 24<sup>th</sup> memo highlighted possible fiscal impacts on revenues due to COVID-19 with my recommendations to carry the City through the remainder of the fiscal year utilizing the Unassigned Fund balance and Emergency Preparedness reserves as an option. The current **General Fund** reserve balances set aside for this purpose are:

- The Unassigned Fund with a balance of \$8,585,255
- Emergency Preparedness with a balance of \$6,533,123
- The Financial Stabilization Account with a balance of \$20,383,343

With the challenging economic outlook, there were tough decisions to make. As such, I, along with staff, re-evaluated the City's financial condition and the possible long-term impact of COVID-19, which drove the decision to introduce furloughs as an option to carry the City through these unprecedented challenges.

Subsequently, on May 11<sup>th</sup>, a memo was sent to the president of each bargaining unit advising them of the upcoming furloughs with a subsequent memo to all City employees on May 13<sup>th</sup>. It is a difficult decision that must be implemented to protect the financial stability of the City therefore, it is inevitable to move forward with the furloughs at this time. The furloughs explained in the memo consisted of 8 hours each week per employee from June 11, 2020 to September 30, 2020.

**Department Action:**

Departments previously analyzed their operations and identified savings to minimize the impact of furloughs. Management and Budget has adjusted the budgets accordingly and departments have updated their projections reflecting the savings created as a result of their analysis. The information provided in **Table 3** below reflects the updated savings.

**Table 3: FY20 Departmental Savings**

| FY 20 Departmental Savings   |                                 |                 |                 |                   |                  |
|------------------------------|---------------------------------|-----------------|-----------------|-------------------|------------------|
| Figures in thousands \$(000) |                                 |                 |                 |                   |                  |
| Dept No                      | Dept Name                       | Vacancy Freeze  | Furlough        | Operating Expense | Total Savings    |
| 01                           | City Commission                 | -               | 32              | -                 | 32               |
| 05                           | Office of the City Manager      | 110             | 176             | 308               | 594              |
| 06                           | Human Resources                 | 65              | 89              | 374               | 528              |
| 08                           | City Clerk                      | -               | 25              | 11                | 36               |
| 10                           | Finance                         | 118             | 158             | 141               | 418              |
| 11                           | Procurement                     | 72              | 46              | 30                | 148              |
| 15                           | Management & Budget             | 26              | 65              | 16                | 107              |
| 20                           | Police                          | 256             | 1,488           | 496               | 2,241            |
| 30                           | Fire Rescue                     | 390             | 938             | 733               | 2,062            |
| 41                           | Community Development           | 29              | 216             | 194               | 439              |
| 43                           | Economic & Business Development | -               | 29              | 244               | 273              |
| 50                           | Public Works                    | 409             | 154             | 781               | 1,344            |
| 60                           | Parks & Recreation              | 245             | 214             | 1,066             | 1,525            |
| 63                           | Community Services              | 282             | 136             | 102               | 520              |
| 68                           | Cultural Affairs                | 7               | 61              | 481               | 548              |
| <b>TOTAL</b>                 |                                 | <b>\$ 2,010</b> | <b>\$ 3,828</b> | <b>\$ 4,977</b>   | <b>\$ 10,814</b> |

In addition to the above, there are several other sources of funding that will be utilized to mitigate the impact of the revenue shortfalls. Please see table 4.

**Table 4: Recommended Funding Sources to Cover Revenue Shortfall**

| Recommended Funding Sources to Cover Revenue Shortfall |  | Amount         |
|--|--|----------------|
| <b>FY 20 Departmental Savings:</b>                     |  |                |
| Vacancy Freeze*  |  | \$2.0M         |
| Furloughs*   |  | \$3.8M         |
| Operating Expense Reductions*                          |  | \$4.9M         |
| <b>TOTAL FY20 Departmental Savings</b>                 |  | <b>\$10.8M</b> |
| <b>Other Funding Sources:</b>                          |  |                |
| FEMA COVID-19 Reimbursement                            |  | \$2.3M         |
| Economic Development Fund                              |  | \$1.7M         |
| Utility Fund   |  | \$3.0M         |
| General Fund Unassigned Fund Balance                   |  | \$5.6M         |
| <b>TOTAL Other Funding Sources</b>                     |  | <b>\$12.6M</b> |
| <b>GRAND TOTAL</b>                                     |  | <b>\$23.4M</b> |
| * Effective June 11, 2020 thru September 30, 2020.     |  |                |

As we monitor our revenues, the City's financial condition will be re-evaluated, and further information will be provided as we go through the coming months. Additionally, I have issued a statement to the employees to reassure them that the decision to implement a furlough was not an easy one, but necessary to take us through current challenges. Together we will get through this.

Should you have any questions or require additional information, please let me know.

C: CM Senior Executive Team

Directors

City Attorney

City Clerk