



MEMO

TO: Mayor and Council
FROM: Ken Cassel, City Manager
DATE: April 30, 2020
RE: COVID Financial Impact

The following is in response to the Mayor's request and a blueprint of the steps needed for the remainder of this fiscal year and projected for the FY 2021 budget. With the effect of the pandemic, all entities, including municipalities, are impacted in their daily operations as well as their revenue streams. All municipalities are experiencing a decline in revenue, not from Ad-valorem taxes currently, but from all the other tax revenue sources such as local option gas tax, franchise fees, utility taxes, communications tax, and occupational licenses, to name a few.

The following is an overview of our revenue stream: Ad-valorem taxes (5.125 mills of the assessed value as of January 1st each year) currently generates approximately \$535,600 (net after discounts) which is 13.5% of the budget. The other revenue sources described above account for approximately \$303,200 (7.6%) of the budget. The development departments (Building, P&Z, Engineering) generate approximately \$1,142,500 or 28.9% of the budget which covers the cost of those departments and some administrative overhead. The remaining \$1,960,000 (49.7%) of the budget is covered by developer contribution.

There are no accounting (GASB) requirements that set an amount for contingency or reserves. It is totally up to the governmental entity's manager and the governing board to determine the appropriate amounts. It is considered Best Management Practices to have between two to five (2-5) percent contingency in a budget and to have the first quarter operating expenses in reserves. First quarter operating reserves are necessary since the fiscal year begins October 1st and the first revenue received from the County Tax Collector is not received until December. Since Westlake has a funding agreement with the main developer, having a large contingency line or the first quarter operating reserves has not been necessary.

We have been operating since our incorporation in 2016 with a minimal contingency and operating reserves. The developer has always honored all funding requests in accordance with the agreement. To date we have not experienced any issues with having enough funds in which to cover the required expenses of the City. However, for the next three budget years I will be including a percentage of the first quarter operating

reserves and contingency lines into the budget so when the funding agreement expires the City will have the appropriate reserves.

As we all know, budgets are a guide based on projected revenues and expenses which are subject to change during any given year. The revenues are estimated on available data at the time of budget preparation and expenses are based on projected needs for the coming year. Disruptions in the revenue stream calls for adjustments in the expense side of the equation. I examined the current budget and have frozen expenditures in areas which were budgeted as a possible need that have not materialized nor is critical to the operation of the City.

The areas of the budget that have been frozen are as follows:

1. Code compliance \$50,000
2. Public relations consultants - \$88,800
3. Capital outlay computers - \$6,000
4. Repair and Maintenance Parks - \$50,000
5. Misc.-Event Expense - \$75,000.

By freezing the expenditures in these line item's, amounting to \$269,800, we have been able to fully cover any losses in the non-Ad Valorem revenue's without impacting any of the operations of the City.

Prior to the pandemic I was considering the need for additional space by adding a second trailer on site. With the advent of the pandemic and remote working, I have placed that on hold and will continue to evaluate the need as the year progresses.

In conjunction with the finance team, I will continue to monitor revenues and keep a tight rein on expenditures for the remainder of this fiscal year while looking at longer range impacts on next year's budget.

I will keep the Council informed of the City's financial position as we move through the remainder of the year. I look forward to speaking with each of you regarding any questions you may have regarding the finances of the City.