



CITY OF WHEATLAND MID-YEAR BUDGET REVIEW JULY 1, 2019 THROUGH DECEMBER 31, 2019

Overview

This report summarizes the City's financial position for the period July 1, 2019 through December 31, 2019. All the City's fund types are included: General Fund, Special Revenue Funds, Capital Project Funds, and Enterprise Funds. The figures presented here are unaudited and have not been prepared in accordance with Generally Accepted Accounting Principles (GAAP). Final fiscal year 2020 (Jul 1, 2019 – Jun 30, 2020) figures will be audited and GAAP compliant.

It is highly likely that the COVID-19 pandemic will have a significant impact on the FY 2020 budget and beyond. We anticipate that sales tax revenue for the last five months of this fiscal year will decrease by at least 30%. Actual sales tax revenue will not be known until May for the quarter ending March 31, 2020, and August for the quarter ending June 30, 2020. Generally, reasonable year-end estimates can be made using the actual revenue received in the first two quarters of the fiscal year, however, the COVID-19 pandemic has created the following uncertainties:

- The impact the pandemic will have on sales tax revenue for the months of February through June
- The impact of the Governor's "deferral" of sales tax payments for small businesses
- Additional costs associated with administering and enforcing temporary safety measures and directives from state and federal officials
- The date the social distancing directive will end, and businesses will be allowed to reopen

This report reflects staff's optimistic year-end projections (30% decrease in sales tax revenue and no additional COVID-19 related costs) and possible worst-case year-end projections (loss of all Bradley Burns sales tax through June, a partial loss of transaction sales tax through June, and additional administrative and public safety COVID-19 related costs).

Staff is hopeful that information from the state and federal governments will be available soon to help provide clarity as we move forward with the preparation of the FY 2021 budget. The first FY 2021 budget workshop is scheduled for May 26, 2020.

This is an unprecedented event in modern times; a time that no one was fully prepared for. I am happy to report that steps were taken in the past by the Wheatland City Council to mitigate unforeseen economic impacts. They include:

- General Fund reserve equal to 25% of budgeted expenses
- Transaction sales tax reserve of \$1 million
- Negotiated zero salary increases for FY 2021

As a result of these steps, the City is able to maintain City services in the short term. Staff will continue to assess the financial and operational impacts of the pandemic. Recommendations for the steps needed to maintain a balanced budget going forward will be presented to Council during the budget workshops beginning next month.

General Fund

The General Fund is the chief operating fund of the City. It accounts for all financial resources except those legally or contractually required to be accounted for in another fund.

The chart below compares the budgeted and actual General Fund Revenues as of December 31, 2019. It also includes optimistic and worst-case year-end projections.

GENERAL FUND REVENUE	Annual Budget	Yr to Date Actual	OPTIMISTIC Projections	Over/(Under) Budget	WORST CASE Projections	Over/(Under) Budget
Property Tax	750,360	206,404	778,667	28,307	778,667	28,307
Sales Tax	306,940	107,193	274,500	(32,440)	203,000	(103,940)
Transaction Sales Tax	520,000	167,516	363,000	(157,000)	327,000	(193,000)
Franchise Fees	118,794	23,311	118,794	-	118,794	-
Fees and Charges	221,825	104,987	205,936	(15,889)	205,936	(15,889)
Interest Earnings	30,000	24,777	42,000	12,000	42,000	12,000
Other Revenue	16,000	9,998	16,000	-	16,000	-
Cost Recovery	243,791	121,895	243,791	-	243,791	-
SLES	150,000	-	150,000	-	150,000	-
TOTALS	2,357,710	766,081	2,192,688	(165,022)	2,085,188	(272,522)

The County collects **property tax** revenue from property owners in the City and distributes the City's portion to the City in December and May of each year. The amount received in December is generally about one-half of the annual amount received. Based on this, the City expects property tax revenue to exceed budget projections by \$28,290. At this time, we do not anticipate a reduction of FY 2020 property tax revenue as a result of COVID-19.

Sales tax revenue includes the 1% Bradley-Burns sales tax and pooled sales tax. At best, the City anticipates a 30% reduction of this sales tax for the months of February through June 2020. It is important to note that the top sales tax revenue generator in the City is from gasoline sales which have been greatly impacted due to the stay-at-home directive. If the burden of the Governor's sales tax deferral is shifted to local governments, we can expect no Bradley Burns sales tax (there are no businesses in Wheatland that generate more the \$50,000 per year in sales tax, the Governor's maximum tax deferral amount) and minimal pooled sales tax for the rest of this fiscal year.

Transaction Sales Tax is the City of Wheatland's one-half cent sales tax. This tax will be considerably less than budgeted for two reasons. First, the transactions tax is projected to be about \$120,000 lower than budget projections due to a correction in the allocation of sales tax from businesses located outside the City. In anticipation of this correction, the City's Contingent Sales Tax reserve, totaling \$1 million, was set aside in prior years to offset any financial impact. Additionally, the transaction sales tax is expected to also see at least a 30% reduction for the months of February through June 2020. If the sales tax deferral is shifted to local governments, we can expect that no transaction sales tax will be generated from businesses located in the City. The good news is that the transaction tax is assessed on certain purchases made by Wheatland residents from businesses located outside the City. Many of those businesses exceed the Governor's maximum tax deferral amount which means the City should receive some transaction sales tax for the months of February through June 2020. Unfortunately, staff is not able to determine the amount that may be received due to the impact the stay-at-home directive could have on retail sales.

Franchise Fee revenue, **Other Revenue** and the **SLES** (Supplemental Law Enforcement Services) revenue are expected to meet original budget projections. **Fees and Charges** revenue is expected to be \$15,889 below budget as no plan check, planning fee, or miscellaneous revenue is anticipated for the remainder of this fiscal year. **Interest earnings** will exceed budget projections due to positive market conditions in the first half of the fiscal year.

Cost Recovery revenue is the amount the General Fund charges to other funds for administration. It is anticipated that this amount will match budget projections.

The chart below compares General Fund Expenses budgeted, mid-year actual, and year end projections by department as of December 31, 2019. Worst case projections include a 10% increase in costs for Administration, Finance, and Public Works, and a 5% increase in costs for Police to address potential state and federal directives.

GENERAL FUND EXPENSES	Annual Budget	Yr to Date Actual	Yr End Projections	Over/(Under) Projections	WORST CASE Projections	Over/(Under) Budget
City Council	14,234	2,875	11,234	(3,000)	11,234	(3,000)
Administration	334,690	182,117	355,425	20,735	390,968	56,278
Finance	143,602	66,660	143,602	-	157,962	14,360
Community Development	214,199	89,251	202,699	(11,500)	202,699	(11,500)
Building Inspection	-	1,850	5,000	5,000	5,000	5,000
Police	1,195,919	557,677	1,195,919	-	1,255,715	59,796
Fire	154,792	154,792	154,792	-	154,792	-
Public Works	120,097	48,296	110,050	(10,047)	121,055	958
Parks	59,222	45,973	80,500	21,278	80,500	21,278
Transfer to Malone	100,000	100,000	100,000	-	100,000	-
Transfer to Lighting Districts	28,500	-	28,500	-	28,500	-
Transfer to Gas Tax Fund	60,000	-	60,000	-	60,000	-
TOTALS	2,425,255	1,249,491	2,447,721	22,466	2,568,425	143,170

City Council expenses are projected to be \$3,000 lower than budget projections due to savings in travel and meeting expenses. The **Administration** Department, which includes expenses for the City Manager’s office, the City Clerk, and general office expenses will be over budget due to additional staff time needed to address COVID-19 issues. The **Finance Department** is projected to be on target with budget. Administration and Finance expenses could increase if replacement staffing is needed due to health concerns or if additional time is needed to meet state and federal directives. Worst case projections include a 10% increase to cover these potential costs.

The **Community Development** Department is projected to be under budget due to savings in contracted services. **Building Inspection** activities were transitioned to the County beginning in February 2019 resulting in an annual savings of approximately \$35,000. Unanticipated Building Inspection costs totaling \$5,000 are for inspections on permits pulled prior to transitioning services to the County.

Police Department expenses are projected to be on target with budget. The worst-case projection includes a 5% increase in costs for temporary replacement of staff due to health concerns, overtime, and supplies/equipment to address potential public safety needs. The **Fire** Department expense for FY 2020 has been paid and no further costs for this year are anticipated.

The **Public Works** Department provides street and **Parks** maintenance. The net increase in projected costs of \$11,231 is mainly due to increased water charges to maintain the City’s public parks and the postponement of the purchase of pavement management software until next fiscal year. The worst-case projection includes a 10% increase in costs for temporary replacement staff, overtime, and supplies/equipment.

The General Fund portion of maintaining the City’s two Landscape and **Lighting Districts** is on target with budget projections. The General Fund’s annual transfer to the **Gas Tax Fund** is also on target with budget projections. To date, the Council has approved one budget amendment totaling \$100,000 to complete the repair of the Malone Culvert.

The chart below compares budgeted and projected Fund Balance for the General Fund at June 30, 2020. Staff’s optimistic projection is that a \$165,022 reduction in revenue and a \$22,466 increase in expenses in addition to the

Optimistic projection = \$255,033 decrease in fund balance.
Worst case projection = \$483,237 decrease in fund balance.

budgeted fund balance reduction of \$67,545 will result in a \$255,033 decrease in fund balance. While it is impossible to know the events that may occur through the end of this fiscal year, staff’s worst-case projection is a \$272,522 reduction in revenue and \$143,170 in additional expenses in addition to the budgeted reduction of \$67,545. This will result in a \$483,237 reduction in fund balance.

GENERAL FUND FUND BALANCE	Annual Budget	Yr to Date Actual	Yr End Projections	WORST CASE Projections
Revenue	2,357,710	766,081	2,192,688	2,085,188
Expenses	(2,425,255)	(1,249,491)	(2,447,721)	(2,568,425)
Net Income (Loss)	(67,545)	(483,409)	(255,033)	(483,237)
Unreserved Balance July 1, 2019 (actual)	250,016	250,016	250,016	250,016
Unreserved Balance June 30, 2020	182,471	(233,393)	(5,017)	(233,221)
Target Reserve (25% of operating expenses)			581,314	581,314

The City's General Fund **Fund Balance** reflects excess revenues accumulated over many years. The Fund balance is allocated to the following reserves:

- Reserve for Sales Tax (\$1,000,000) - this amount has been set aside for possible future re-allocation of transaction sales tax revenue. There has been a significant reduction in transaction sales tax revenue in FY 2020 indicating that the allocations have been corrected. Past collections must be set aside for three years before they become revenue to the City. One-third of the reserve will be available in fiscal year 2021, one-third in 2022, and the remainder in 2023.
- Reserve for PARSAC (\$30,000) - this amount has been set aside for the City's self-insured portion of any liability claims.
- Reserve for Operations (\$581,314) - this amount equals 25% of budgeted operating expenses. It has been set aside for extraordinary or unforeseen expenses. The COVID-19 pandemic is both extraordinary and unforeseen. This reserve will allow the City to maintain service levels while staff determines the steps necessary to balance the budget and restore the Reserve to equal 25% of budgeted operating expenses.
- Unreserved Amount (\$250,016 on July 1, 2019) – this amount is similar to a savings account for the General Fund. It provides a cushion for cash flow and budget overages and is used to pay for General Fund capital expenditures such as the recent purchase of a new police vehicle. In FY 2019, Unreserved Fund Balance was used to pay for the cost of repairing the Malone Culvert (\$400,000 from Unreserved Fund Balance and \$109,571 from the Sewer Collection Impact Fund).

It is anticipated that the remaining Unreserved Fund Balance will be used in FY 2020 to pay for revenue losses and increased costs associated with the pandemic. In addition to depleting the Unreserved Fund Balance amount, the optimistic projection shows that \$5,017 of the Reserve for Operations will be needed. The worst-case projection shows that \$233,221 of the Reserve for Operations will be needed which will result in a Reserve for Operations of less than 15%. It is staff's intention to make necessary adjustments to avoid the worst-case scenario. The FY 2021 budget presentation will include recommendations to restore the Reserve for Operations.

GENERAL FUND FUND BALANCE	Annual Budget	Yr End Projections	WORST CASE Projections
Reserve for Sales Tax	1,000,000	1,000,000	1,000,000
Reserve for PARSAC	30,000	30,000	30,000
Reserve for Operations (25%)	581,314	576,297	348,093
Unreserved (actual)	250,016	-	-
TOTAL GENERAL FUND BALANCE	1,861,330	1,606,297	1,378,093

Special Revenue Funds

Special Revenue Funds account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes.

The City's Special Revenue Funds include the following funds: Gas Tax, TDA, CDBG, Impact Funds, SLES, Pumpkin Farm Joint Admission, Wheatland Community Gardens, Developer Project Funds, Landscape and Lighting Districts, Pool Maintenance, and the Community Facility District. The Pool Maintenance Fund was established in August 2019 as a result of a \$1,000,000 donation for upkeep and maintenance of a future community swimming pool. As of December 31, 2019, the donation plus interest earned totaled \$1,009,489. To date, all the City's Special Revenue Funds are projected to be within budget at fiscal year-end with the exception of the Gas Tax Fund. Stay-at-home directives from the state have reduced gasoline consumption resulting in reduced gas tax revenue. An estimated reduction of \$13,000 in gas tax revenue will be offset partially with Gas Tax Fund Balance and partially with salary savings.

Capital Project Funds

Capital Project Funds account for projects that help maintain or improve a City asset, often called infrastructure. The project must have a total cost in excess of \$10,000 and have a useful life of greater than three years.

Department of Water Resources (DWR) Feasibility Study

The City has contracted with MBK Engineers Inc. to conduct the Small Communities Flood Risk Reduction Program Feasibility Study. It is funded by a \$500,000 grant from DWR. Because this is "reimbursement" grant, the City has secured a no interest loan from the Yuba County Water Agency to eliminate cash flow impacts. The project began in October 2018 and expected completion is May 2020. To date \$451,308 has been spent.

Hooper Street

The Hooper Street project includes road resurfacing and improved safety for pedestrians and motorists on Hooper Street from Hwy 65 to Olive Street. The estimated total cost of \$389,200 will be funded from the Gas Tax Fund (\$156,300), the TDA Fund (\$182,900) and a contribution from the Wheatland School District (\$50,000). To date \$55,634 has been spent.

Malone Culvert

The Malone Culvert project includes environmental and design activities and the emergency replacement of the Malone Culvert. The estimated cost of the project is \$507,083. It is being paid from the General Fund (\$400,000) and the Sewer Collection Impact Fund (\$107,083). To date \$509,571.11 has been spent. This project is complete.

Police Car

In FY 2019, \$65,000 was set aside for the purchase of a new police car. The car has arrived and has been paid for.

Enterprise Funds

Enterprise Funds account for City operations that are financed and operated in a manner similar to private business enterprises, where the cost of providing goods or services to the general public is financed or recovered through user charges.

The Water Fund is projected to have net income that slightly exceeds original budget projections. This is due mainly to debt service savings resulting from refinancing the City's USDA loans. It should be noted that the current rate plan in effect was designed to increase Net Income to build a prudent operating reserve.

The City has suspended all water service disconnections due to non-payment as directed by the Governor. This is expected to have a minimal short-term effect on revenues.

WATER FUND	Annual Budget	Yr to Date Actual	Yr End Projections
Revenue	960,000	613,628	1,030,000
Expenses	(959,479)	(436,182)	(967,603)
Net Income (Loss)	521	177,446	62,397
Net Position Jul 1, 2019	517,418		517,418
Estimated Net Position June 30, 2020	517,939		579,815
<i>The Net Position is made up of:</i>			
Cash and Cash Equivalents	321,596		555,662
USDA Loan Reserve	172,190		-
Debt	(2,769,618)		(2,769,618)
Net Fixed Assets	2,793,771		2,793,771
Estimated Net Position June 30, 2020	517,939		579,815

The Wastewater Fund FY 2020 revenue is projected to be slightly less than budgeted. This decrease in revenue is offset by debt service savings resulting from refinancing the City's USDA loans. Like the Water Fund, the current rate plan in effect was designed to increase Net Income to build a prudent operating reserve.

WASTEWATER FUND	Annual Budget	Yr to Date Actual	Yr End Projections
Revenue	1,006,500	659,870	993,000
Expenses	(1,225,051)	(522,565)	(1,175,174)
Net Income (Loss)	(218,551)	137,305	(182,174)
Net Position July 1, 2019	706,700		706,700
Estimated Net Position June 30, 2020	488,149		524,526
<i>The Net Position is made up of:</i>			
Cash and Cash Equivalents	256,643		498,828
USDA Loan Reserve	205,808		-
Debt	(3,486,345)		(3,486,345)
Net Fixed Assets	3,512,043		3,512,043
Estimated Net Position June 30, 2020	488,149		524,526