



# CITY OF WHEATLAND

## CITY COUNCIL MEETING STAFF REPORT May 12, 2020

**SUBJECT:** FISCAL YEAR 2020-2021 PRELIMINARY REVIEW OF  
GENERAL FUND OPERATING BUDGET

**PREPARED BY:** Susan Mahoney, Finance Director

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### **Recommendation**

Receive an oral report on the status of sales and transaction tax revenue as it relates to the preparation of the fiscal year (FY) 2020-2021 General Fund operating budget.

### **Background/Discussion**

Preliminary preparations for the FY 2020-2021 General Fund operating budget have identified reduced sales and transaction tax revenues due to:

1. The economic impacts of COVID-19
2. The anticipated correction of transaction sales tax allocations
3. The sunset of the transaction sales tax

### **COVID-19**

The stay-at-home order that began in mid-March has affected retail, gasoline, and restaurant sales. It is estimated that the City of Wheatland will experience a 50% loss of sales and transaction tax revenue for the period March through June 2020. Unfortunately, the exact impacts will not be known for several months as businesses have been given a State authorized extension on the deadline to submit sales tax reports and collections.

Experts predict that consumer spending will resume in the next fiscal year (FY 2020-2021) but at a slightly slower pace. We estimate that this will result in a 10% reduction in sales and transaction tax revenue for FY 2020-2021.

### **Correction of Transaction Tax Allocations**

In previous years, the City set aside \$1 million in estimated excess transaction tax revenues to allow for potential future corrections. Current fiscal year receipts of transaction tax revenue indicate that the corrections have been made. This has resulted in a reduction of \$152,460 from original transaction tax budget projections. The City must keep the \$1 million set aside for three years to allow for possible

reimbursement. In the next fiscal year (FY 2020-2021), one-third of the \$1 million set aside is available for transfer to the General Fund Emergency Reserve.

Transaction Tax Sunset

The transaction tax will sunset on March 31, 2021 unless an extension is placed on the November 2020 ballot and it is approved by the voters. If Council chooses not to place the extension on the ballot or if the voters do not approve the extension there will be an estimated \$82,700 loss in transaction tax revenue in FY 2020-2021. In subsequent fiscal years there will be no transaction sales tax revenue.

SUMMARY OF FY 2019-2020 SALES AND TRANSACTION TAX ADJUSTMENTS	Sales Tax	Transaction Tax	TOTAL
Original Budget	306,940	520,000	826,940
Adjusted budget due to transaction tax corrections	306,940	367,540	674,480
Projected current year revenue with COVID-19 impacts	273,077	317,540	590,617

Based on the above sales and transaction tax projections and other adjustments to General Fund revenue and expenses, the estimated General Fund loss for the **current fiscal year** (FY 2019-2020) is \$311,607. This loss will require the use of \$64,298 of the General Fund Emergency Reserve.

Based on current information, projections of General Fund revenue and expenses for **next fiscal year** (FY 2020-2021) will result in an estimated General Fund loss of \$197,766. FY 2020-2021 projections include a 10% reduction in sales and transaction sales tax revenue, the loss of all transaction sales tax revenue in April, May and June 2021, no COLA for staff, no capital projects, and no change in existing service levels. A transfer to the General Fund Emergency Reserve of one-third of the transaction tax set aside will restore the Emergency Reserve and provide \$85,175 in unreserved General Fund Fund balance.

Fiscal Impact

This report is a preliminary overview of the General Fund operating budgets for FY 2019-2020 and FY 2020-2021 with an emphasis on sales and transaction tax revenue. Updates and additional budget projections will be brought to Council on May 26<sup>th</sup> and June 9<sup>th</sup>. A final budget document with fiscal impacts will be presented to Council on June 23<sup>rd</sup>.

Attachments

None