



Financial Update related COVID-19
pandemic and related economic
conditions

May 5, 2020

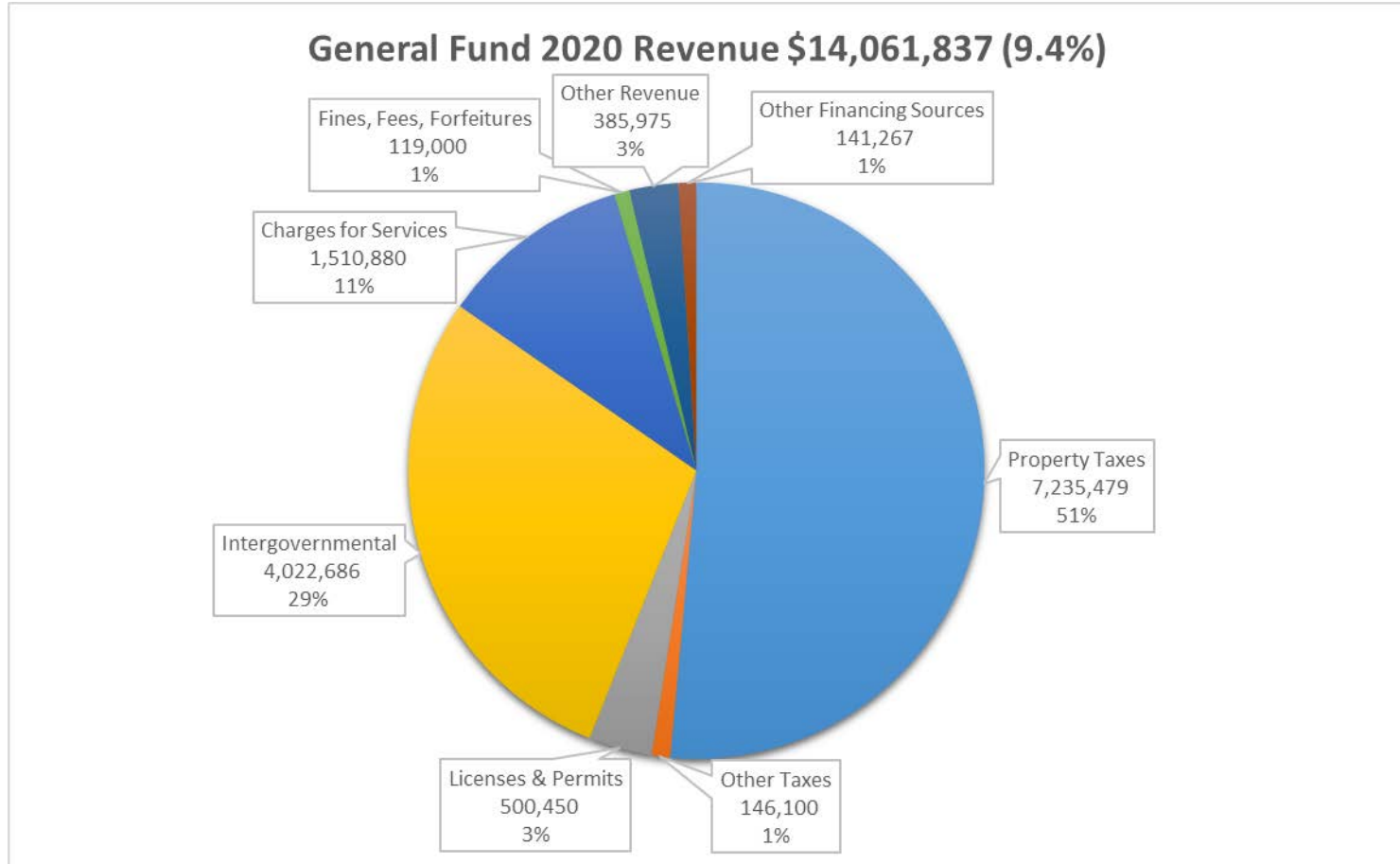
COVID-19 Financial Impact

- Expect COVID-19 will impact both revenues and expenditures
- Taking proactive steps to mitigate potential impact
 - Underway: scrutinize expenditures in 2020, essential vs discretionary
 - 2021 Budget analysis of expected as well as best and worst case scenarios
- Actively monitoring as situation evolves

Revenue

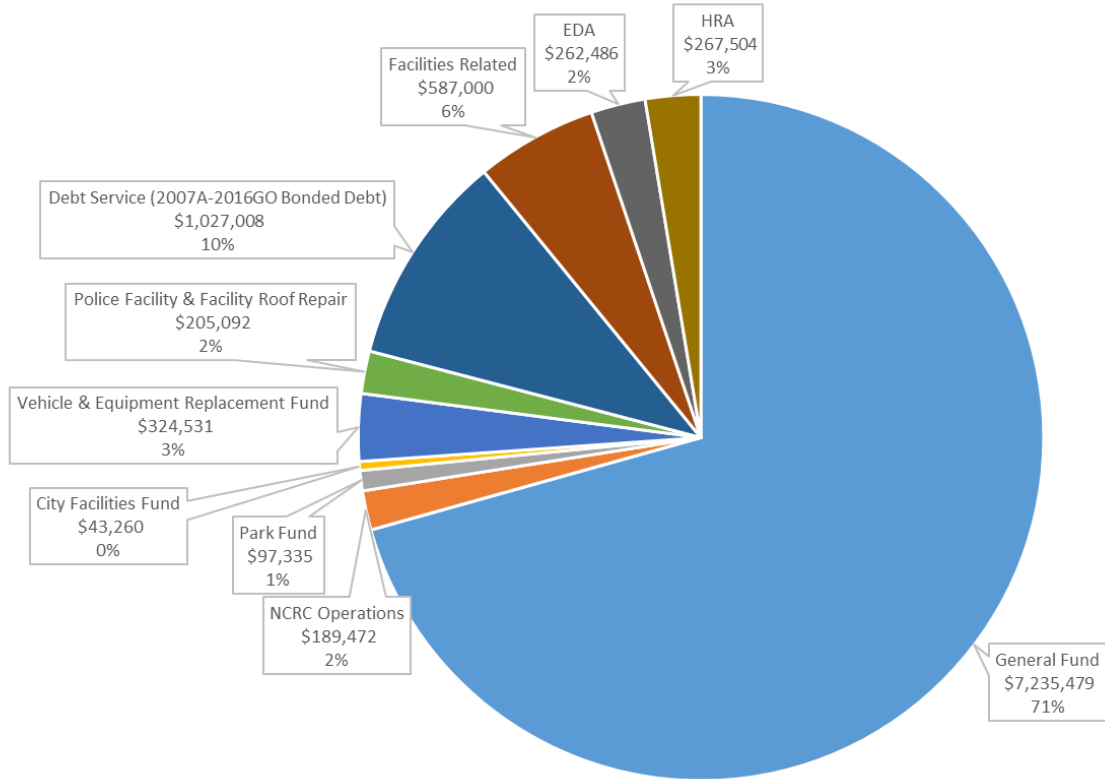
- Will we see a decrease in revenues or lags in cashflow?
 - Property tax delinquencies
 - A cut in local government aid (LGA)
 - Utility payment delinquencies
 - Project delays impacting permits/licenses
 - Liquor license pro-rata refunds
 - Pool/Arena revenue

2020 General Fund Revenue



2020 Tax Levy

2020 Northfield Property Tax Levy \$10,239,167 (9.4%)



Revenue Risks & Comparisons

MUNICIPAL BUDGETS ARE HANGING ON BY A THREAD **NLC** NAT LEA OF C

Mass layoffs begin in cities and states amid coronavirus fallout, threatening education, sanitation, health and safety
Millions of municipal workers could find themselves out of a job or without pay, according to local leaders, who say programs would fall into disarray unless Washington intervenes

Cincinnati furloughs roughly 1,700 city workers amid COVID-19 pandemic

Duggan proposes budget cuts to offset Detroit's projected \$300M lost in revenue
Plan will affect city's 9,000 employees

City of San Antonio Decimates Arts Funding, Furloughs 270 Employees in Latest Budget Cuts
Posted by Kelly Marka Nelson on Fri, Apr 10, 2020 at 10:06 am

DEVASTATING ECONOMIC IMPACT

- 88% of cities expect to face a revenue shortfall this year*

LAYOFFS & FURLOUGHS OF MUNICIPAL EMPLOYEES

- Up to 1 million public sector workers under threat**

CUTS TO CITY SERVICES

- 52% of cities say budget cuts will impact police and public safety*

*Source: National League of Cities-U.S. Conference of Mayors Poll
**Source: National League of Cities research

@ceanthony50 @leagueofcities

Comparisons across the nation are important but the revenue mix and services cities provide are very different so it ultimately is most relevant on an individual city basis.

Revenue Risks & Comparisons

- Other cities in Minnesota may have revenue sources that are much more significantly impacted
 - Sales Taxes supporting debt service or operations
 - Lodging Tax (impact to CVBs)
 - Tourism dominated communities (Northern MN)
 - Stadiums & Civic Centers (fee based, sales taxes)
 - Park and Rec programs (fee based, fixed staffing)
 - Municipal Airports (property tax/state aviation tax)

Revenue Risks & Comparisons

- At this time, the current biggest risks to the City of Northfield are likely to be 2021 impacts including potential delinquent property taxes, sensitivity to local property tax increases and State cuts in LGA
 - General Fund Property Tax levy at \$7.2M is 51% of the General Fund Revenue
 - LGA budgeted at \$3.2M is 23% of the General Fund

Property Tax Levy

- Property Tax levy is 51% of the General Fund Revenue
 - Total citywide levy is \$10,239,167
 - General Fund levy is \$7,235,479
- Property Tax Delinquency Potential
 - 2008 saw a delay in \$328K in the General Fund (shortfall did impact revenues in the budget year but most is eventually collected)
 - Expect to see some impact in 2020 and 2021 at this time but is still very early to predict

Property Tax Levy

- Counties are deferring first half property tax late fees from May 15th to July 15th and altering payment schedules, including Rice County and Dakota County
 - The schedule for this round of payments has been modified by the Counties to minimize the impact on Cities
 - We can cashflow the delay for City of Northfield
 - However, we won't know until the end of July the magnitude of any initial 1st half tax delinquencies

Local Government Aid

- LGA budgeted at \$3,205,147 is 23% of the General Fund
 - State revenue forecast scheduled for next week but will likely be bleak
 - Could there be LGA cuts in 2021 or possibly 2020?
 - Past practice is not indicative of the future, however, the City experienced cuts in both 2008 and 2009 and continued reduced levels through 2013
 - \$355K in 2008, a 12.3% reduction
 - \$302K in 2009, a 10.3% reduction

Liquor Store

- Liquor Store sales were up 5.7% in March and down 19.6% in April
 - A few days saw double digit increases prior to the “Stay at Home” order
 - Other Cities are seeing much larger increases, Lakeville 61% in March - as Apple Valley temporarily closed stores
 - April is a reflection of the loss of college business
 - We are seeing lower customer counts, but higher sales per purchase, similar to grocery shopping

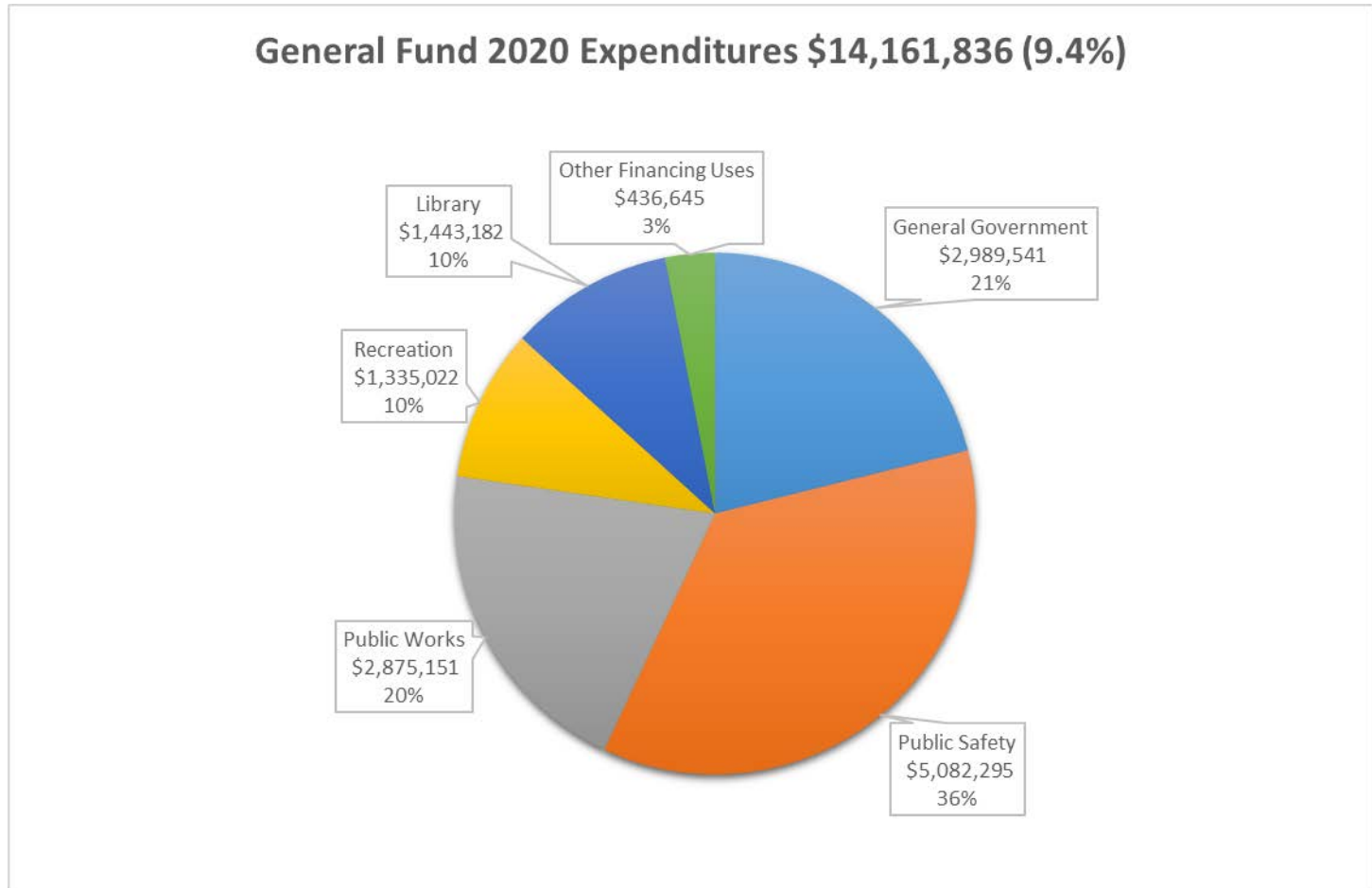
DMV

- The DMV was closed for 3 weeks per the Governor's "Stay at Home" order
 - Estimate \$12K in lost revenue during shutdown
 - The DMV partially reopened the week of April 20th with limited service, drop off or mail in tabs/registration only, no customer contact
 - Facility modifications complete to allow for distancing when able to reopen

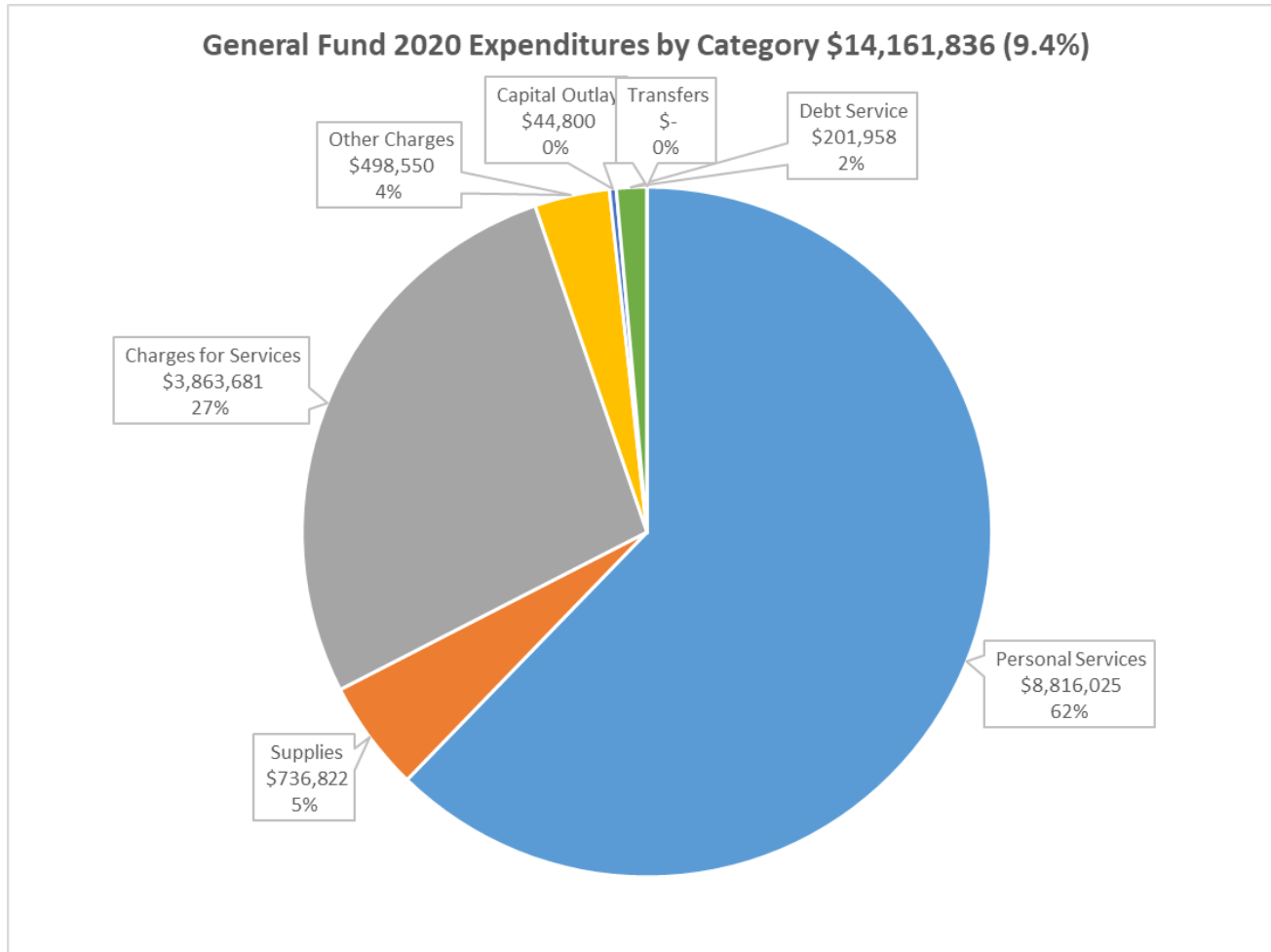
Expense & Risks

- Review essential and discretionary spending
- Adjust Budget/Forecast for 2020 and 2021
 - Department heads to review all spending for foreseeable future
 - Consider the Pool/Arena operations before we hire seasonal staff

2020 General Fund Expenditures



2020 General Fund Expenditures



2020 COVID-19 Initiatives

- Implementation of various new leaves
 - 2 week COVID leave and following federal guidance on additional sick and child care leaves related to COVID
- Facilities modifications to ensure distancing and IT purchases to facilitate remote work
- Revenue reductions under consideration
 - Utility late fees waived, Liquor License pro-rata refunds, EDA loan deferrals already approved

2020 Considerations

- Increased Expenditures
 - Increased use of leaves – potential increase in overtime or external staffing
 - Increased IT costs to facilitate remote work
 - Increased facility cost to allow for physical distancing and increased sanitation

2020 Considerations

- Potential Savings (pending review)
 - Fireworks
 - Memorial Pool – close for the summer
 - Ice Arena – close for summer or entire season
 - Reductions in Services or Projects
 - Be strategic
 - Be based on data & good predictions
 - Avoid natural emotional response to crisis related to decision-making

2021 Considerations

- Potential General Fund Revenue Impact
 - Could be a \$900K reduction in Revenue (current worst case scenario estimating)
 - Property tax and LGA, based on 2008 impact
 - Likely spread over 2020 and 2021
 - TOO EARLY to assume this for action steps
 - Best case estimate LGA stays at same or very similar levels to 2021 and little impact to property tax delinquencies

COVID related leaves

- 13 employees have already used new COVID leaves
 - to care for self, someone else in household or take care of children while school is in distance learning mode (YTD a total of 607 hours have been taken)
 - Monitoring for increased overtime
 - Have been able to reallocate other staff to cover responsibilities and adjusted priorities to normal duties as others cover for increased absences

Federal & FEMA Reimbursement

- Too early to estimate \$ amount from FEMA
 - We expect to be able to submit some expenses for FEMA reimbursement
- Other businesses will be reimbursed for the federally mandated COVID related leaves, however, local governments will not.
 - Will continue to monitor if this changes

Budget Impact

- At a high level, could see over a \$1M reduction in combined revenue in 2020 and 2021 across all funds
- Budget reserves available
 - 2019 did generate an increase of General Fund reserves above targeted levels, could be allocated to 2020/2021 shortfalls
 - Budget reserves in Enterprise Funds are healthy
 - Utilities and Liquor Store, can cover short term delinquencies or drop in sales

2021 Forecast

- 2020 Capital Projects and bonding will drive a required 5.4% increase in the 2021 levy
 - NE Mill & Overlay
 - TH 246 & Jefferson Parkway Roundabout and underpasses for trails
- Labor contracts expire 12/31/20 and planning for contract negotiations is underway

Next Steps

- Identify essential vs discretionary expenditures – to discuss what discretionary spending can be eliminated or postponed
 - Review 2020 and 2021 CIP & CEP for deferral
 - Department heads to review all budget line items
- Initiate 2021-2022 budget process with scenario planning early in the timeline
 - Reforecast 2020 impact
 - 2021 alternatives (different assumptions and options) & staff starting in May

Reopen, Recover, Reset

A Road map to Reopen, Recover and Reset

Resources for state and local governments



The COVID-19 pandemic has challenged our world in ways we have never before experienced. The health, economic and societal impacts of the pandemic will linger long after the return to "normalcy."

To help state and local governments (including school districts and utilities) prepare for and prosper during our new normal, Baker Tilly introduces **R³: A Road map to Reopen, Recover and Reset**. R³ provides governmental entities with resources, best practices and solutions to help your organization navigate its response so your community can thrive in a post-COVID-19 environment.



Reopen

Though the timeline and staging for reopening will vary across the country, governmental entities should be developing and testing their plan to reopen now. The plan should include actions to address the pandemic's financial impacts to your community, evaluate organizational options and outcomes, and determine the best way to communicate decisions for community buy-in.



Recover

As state and local governments implement their plans, remaining nimble will be an important element of success. Budgets will need to be reevaluated, strategic plans shifted, processes retooled, organizations restructured and various scenarios outlined to guide your community on the road to recovery.



Reset

With the uncertainty brought about by the pandemic comes the opportunity to apply lessons learned. As state and local governments look ahead, processes and procedures will be redefined, adaptive capabilities assessed and response recovery plans for future incidents put into place.

Questions & Discussion