

TOWN COUNCIL STAFF REPORT

Title: Fiscal Year 22-23 Budget – Preliminary Revenue Projections.

Meeting Date: March 16, 2022

Prepared by: Rob Patterson – Administrative Services / Finance Director

RECOMMENDATION:

Staff is requesting Town Council comment and direction on proposed revenue projections that will assist staff in preparing the preliminary FY22-23 budget to be presented on April 27th for Town Council consideration.

BACKGROUND:

The methodology and background used for each revenue forecast is consistent with prior years. Preparing these initial revenue estimates provides a base line for providing current service levels with specific areas identified for additional investment. The development of a robust capital improvement program (CIP) along with current and future planned investment in housing programs requires a very measured process in setting revenue estimates for the Town's operating budget. We remain conservative in our estimates to prevent over reliance on high revenues for operations, while allowing for greater flexibility in executing on the CIP and other priority investments. These revenue estimates are completed with the best available information to date. Staff will receive updates to information for revenue projections and make adjustments through the budget cycle. Staff is working on the expense side of the budget as we prepare a preliminary budget for discussion on April 27th.

ANALYSIS:

In preparing for the FY22-23 budget, several key revenue projections are made to set the stage for the expenditure side of the budget. The primary focus is on the General Fund, which supports the majority of the Town's operations. The following highlights our projection of revenues for the preliminary budget work. These projections are subject to change as more information is obtained through the budget process. The following discussion uses the adopted FY21-22 Budget as a point of comparison as well as trends over the past several years. The preliminary base operating revenue for FY22-23 is \$27,341,480 which represents a 9.9% increase from prior year adopted budget (\$24,874,749). This increase is consistent with natural growth of the organization as we have enhanced our core services to meet the needs of our community.

TOT

The base Transient Occupancy Tax (TOT) is recommended at \$16.0 million this year, which is \$1,500,000 or 10.3% higher than last year and represents 58.5% of the General Fund budgeted revenue for FY22-23. We believe this base TOT is sustainable based on summer / winter diversification and TBID marketing efforts. Staff does believe this revenue item will exceed the

budget within the next year allowing for the implementation of the CIP and other priority investments to support the community (e.g. housing and childcare). However, locking in a higher budget would increase our vulnerability to fluctuating visitation. This approach also allows us to allocate revenue in excess of the operating budget to special projects and one time spending that will further critical community programs. The Town is unique in that we depend so heavily on visitation and this revenue stream, but we are also unique in the fact we have generated additional financial capital to further our projects. This fact is also unique for local government.

The lodging community has enjoyed a strong demand for visitation and has appropriately adjusted the average daily rental rate on most units. This adjustment has increased the overall revenue for both the operators and Town while still meeting the current visitor demand. Staff does anticipate this practice will continue provided the economy continues to support leisure travel. The current global issues may have an impact on our visitation as the cost of fuel continues to rise and uncertainty of potential escalation of current conflicts, weigh on consumers. We do anticipate an increase in foreign travel that was significantly reduced during the pandemic which should help the region with additional visitors.

For comparison purposes, TOT enforcement related revenues from assessments, penalties or interest are not included in the base TOT revenue analysis. The analysis provides a comparison of Non-Winter months (May – November) and Winter-Months (December – April). The two seasons are used to demonstrate both steady increase in Non-Winter month revenue and more potential volatility in the Winter months. The average for the past 8, 6, & 4 years is provided.

Transient Occupancy Tax Analysis

| Fiscal Year | | | | | | | Actual Variance to | | |
|---------------|----|-----------|----|------------|----|------------|--------------------|-----------------|---------------|
| | | | | | | | Adopted Budget | Modified Budget | |
| FY2013 - 14 | \$ | 4,415,758 | \$ | 5,947,501 | \$ | 10,363,259 | \$ 11,646,356 | \$ (1,283,097) | \$ 10,343,365 |
| FY2014 - 15 | \$ | 4,907,077 | \$ | 6,401,920 | \$ | 11,308,997 | \$ 11,600,000 | \$ (291,003) | \$ 10,839,000 |
| FY2015 - 16 | \$ | 6,112,789 | \$ | 9,620,717 | \$ | 15,733,506 | \$ 11,600,000 | \$ 4,133,506 | \$ 14,500,000 |
| FY2016 - 17 | \$ | 6,958,537 | \$ | 11,132,927 | \$ | 18,091,464 | \$ 11,650,000 | \$ 6,441,464 | \$ 16,667,305 |
| FY2017 - 18 | \$ | 7,227,599 | \$ | 10,639,802 | \$ | 17,867,401 | \$ 12,500,000 | \$ 5,367,401 | \$ 17,472,000 |
| FY2018 - 19 | \$ | 7,385,530 | \$ | 12,825,531 | \$ | 20,214,779 | \$ 13,500,000 | \$ 6,714,779 | \$ 20,100,000 |
| FY2019 - 20** | \$ | 5,870,647 | \$ | 10,103,601 | \$ | 15,974,248 | \$ 13,500,000 | \$ 2,474,248 | \$ 15,904,700 |
| FY2020 - 21** | \$ | 8,546,147 | \$ | 7,964,197 | \$ | 16,510,344 | \$ 11,200,000 | \$ 5,310,344 | \$ 16,564,000 |
| FY2021 - 22* | \$ | 7,500,950 | \$ | 8,296,557 | \$ | 15,797,507 | \$ 14,500,000 | \$ 1,297,507 | |

* = Partial Year, missing February, March, April (Winter) May, June - (Non-Winter)

** = Year Heavily Impacted by COVID-19

| Average | Non-Winter | | Winter | | Total |
|---------|------------|-----------|--------|------------|---------------|
| 8 Year | \$ | 6,428,011 | \$ | 9,329,525 | \$ 15,757,535 |
| 6 Year | \$ | 7,016,875 | \$ | 10,381,129 | \$ 17,398,004 |
| 4 Year | \$ | 7,257,481 | \$ | 10,383,283 | \$ 17,640,764 |

Note:

Winter = December - April

Non Winter = May - November

Staff Recommendation \$ 16,000,000 10.3%

Staff is requesting Council discussion and confirmation on the TOT revenue recommended for the initial preparation of the operating budget.

Property Tax

All Combined Property Tax revenue streams represent approximately 17.0% of the General Fund revenue or \$4,650,000. This projected revenue is 10.3% higher than prior year adopted budget with the most of this increase coming from secured property tax and property tax-in lieu VLF. While this increase looks like a lot when compared to prior year budget, the increase is just 1.7% higher than last year actual revenue. (\$4,572,245). These estimates will be reviewed in the coming weeks as we anticipate receiving more detailed projections from Mono County. This initial projection assumes approximately 2% increase over last year. Base property tax rates are poised to increase by 2% as provided for under Prop 13, plus growth from new development and changes related to property sales. Staff also used trends in individual property tax line items to determine the distribution and those items listed above have seen the most increase in the last two years. Below you will find a historical representation of property tax.

Property Tax Analysis

| Fiscal Year | Actuals | Adopted Budget | Actual Variance to Adopted Budget |
|--------------|--------------|----------------|-----------------------------------|
| FY2013 - 14 | \$ 3,175,190 | \$ 3,045,495 | \$ 129,695 |
| FY2014 - 15 | \$ 3,227,673 | \$ 3,202,984 | \$ 24,689 |
| FY2015 - 16 | \$ 3,356,561 | \$ 3,325,405 | \$ 31,156 |
| FY2016 - 17 | \$ 3,486,307 | \$ 3,491,692 | \$ (5,385) |
| FY2017 - 18 | \$ 3,635,160 | \$ 3,604,022 | \$ 31,138 |
| FY2018 - 19 | \$ 3,803,820 | \$ 3,532,000 | \$ 271,820 |
| FY2019 - 20 | \$ 4,054,115 | \$ 3,688,000 | \$ 366,115 |
| FY2020 - 21 | \$ 4,572,245 | \$ 3,927,000 | \$ 645,245 |
| FY2021 - 22* | \$ 2,333,701 | \$ 4,214,850 | |

* Partial Year

| Average | Total |
|---------|--------------|
| 8 Year | \$ 3,663,884 |
| 6 Year | \$ 3,818,035 |
| 4 Year | \$ 4,016,335 |

Staff Recommendation \$ **4,650,000** **10.3%**

Sales Tax

Sales Tax represents 9.9% of the General Fund or \$2,700,000 for FY22-23. This amount is a 3.8% higher than prior year adopted budget. (2,600,000) The Town did see an impact to Sales Tax in prior years as visitation was reduced during the pandemic. The amounts recommended for FY22-23 represent a return to pre-pandemic expectation on visitation. In April 2019, AB147 was signed into law requiring every retailer engaged in business in the state to collect the tax from the purchaser, file a return, and remit the tax to the State. This bill also identified “Marketplace facilitator” as one who contracts with marketplace sellers to facilitate the sale of products (a.k.a Online Sales). This required online sales platforms to collect and remit taxes. The return of normal visitation coupled with collection of online sales tax should result in a strong year for this revenue stream. Below you will find a historical representation of sales tax.

Sales Tax Analysis

| Fiscal Year | Actuals | Adopted Budget | Actual Variance to Adopted Budget |
|--------------|--------------|----------------|-----------------------------------|
| FY2013 - 14 | \$ 1,403,323 | \$ 1,332,710 | \$ 70,613 |
| FY2014 - 15 | \$ 1,411,709 | \$ 1,430,000 | \$ (18,291) |
| FY2015 - 16 | \$ 1,805,712 | \$ 1,730,000 | \$ 75,712 |
| FY2016 - 17 | \$ 2,617,014 | \$ 2,324,000 | \$ 293,014 |
| FY2017 - 18 | \$ 2,433,682 | \$ 2,250,000 | \$ 183,682 |
| FY2018 - 19 | \$ 2,749,036 | \$ 2,490,000 | \$ 259,036 |
| FY2019 - 20 | \$ 2,372,657 | \$ 2,521,000 | \$ (148,343) |
| FY2020 - 21 | \$ 2,513,299 | \$ 1,850,000 | \$ 663,299 |
| FY2021 - 22* | \$ 1,245,937 | \$ 2,600,000 | |

* Partial Year

| Average | Total |
|---------|--------------|
| 8 Year | \$ 2,163,304 |
| 6 Year | \$ 2,415,233 |
| 4 Year | \$ 2,517,169 |

| | | | |
|-----------------------------|-----------|------------------|-------------|
| Staff Recommendation | \$ | 2,700,000 | 3.8% |
|-----------------------------|-----------|------------------|-------------|

Franchise Fees

Franchise Fees revenue estimate of \$900,000 represents 3.3% of the General Fund revenue budget for FY22-23. The Town receives franchise fees for Solid Waste, Electricity, Gas and Cable. The budgeted revenue is 10.8% higher than prior year adopted budget. In the prior year, the Town completed a new Solid Waste franchise agreement with Waste Connections, Inc. (DBA Mammoth Disposal) included a 2% increase in the franchise fee. The Town has also seen an increase in solid waste collections. Staff has forecast a 25% increase in the solid waste franchise fees, a 9.5%

increase in electricity franchise fees, flat or no increase for Gas franchise fees and a 2.2% increase for cable franchise fees. Combined these expectations make up the increase of \$88,000 represented in the number forecast for this revenue stream. Below you will find a historical representation of combined franchise fees.

Franchise Fee Analysis

| Fiscal Year | Actuals | Adopted Budget | Actual Variance to Adopted Budget |
|--------------|--------------|----------------|-----------------------------------|
| FY2013 - 14 | \$ 787,727 | \$ 729,963 | \$ 57,764 |
| FY2014 - 15 | \$ 787,331 | \$ 790,000 | \$ (2,669) |
| FY2015 - 16 | \$ 637,607 | \$ 804,705 | \$ (167,098) |
| FY2016 - 17 | \$ 1,010,266 | \$ 811,656 | \$ 198,610 |
| FY2017 - 18 | \$ 911,173 | \$ 813,000 | \$ 98,173 |
| FY2018 - 19 | \$ 910,190 | \$ 830,000 | \$ 80,190 |
| FY2019 - 20 | \$ 852,565 | \$ 845,000 | \$ 7,565 |
| FY2020 - 21 | \$ 858,936 | \$ 770,000 | \$ 88,936 |
| FY2021 - 22* | \$ 275,983 | \$ 812,000 | |

* Partial Year

| Average | Total |
|---------|------------|
| 8 Year | \$ 844,474 |
| 6 Year | \$ 863,456 |
| 4 Year | \$ 883,216 |

Staff Recommendation **\$ 900,000 10.8%**

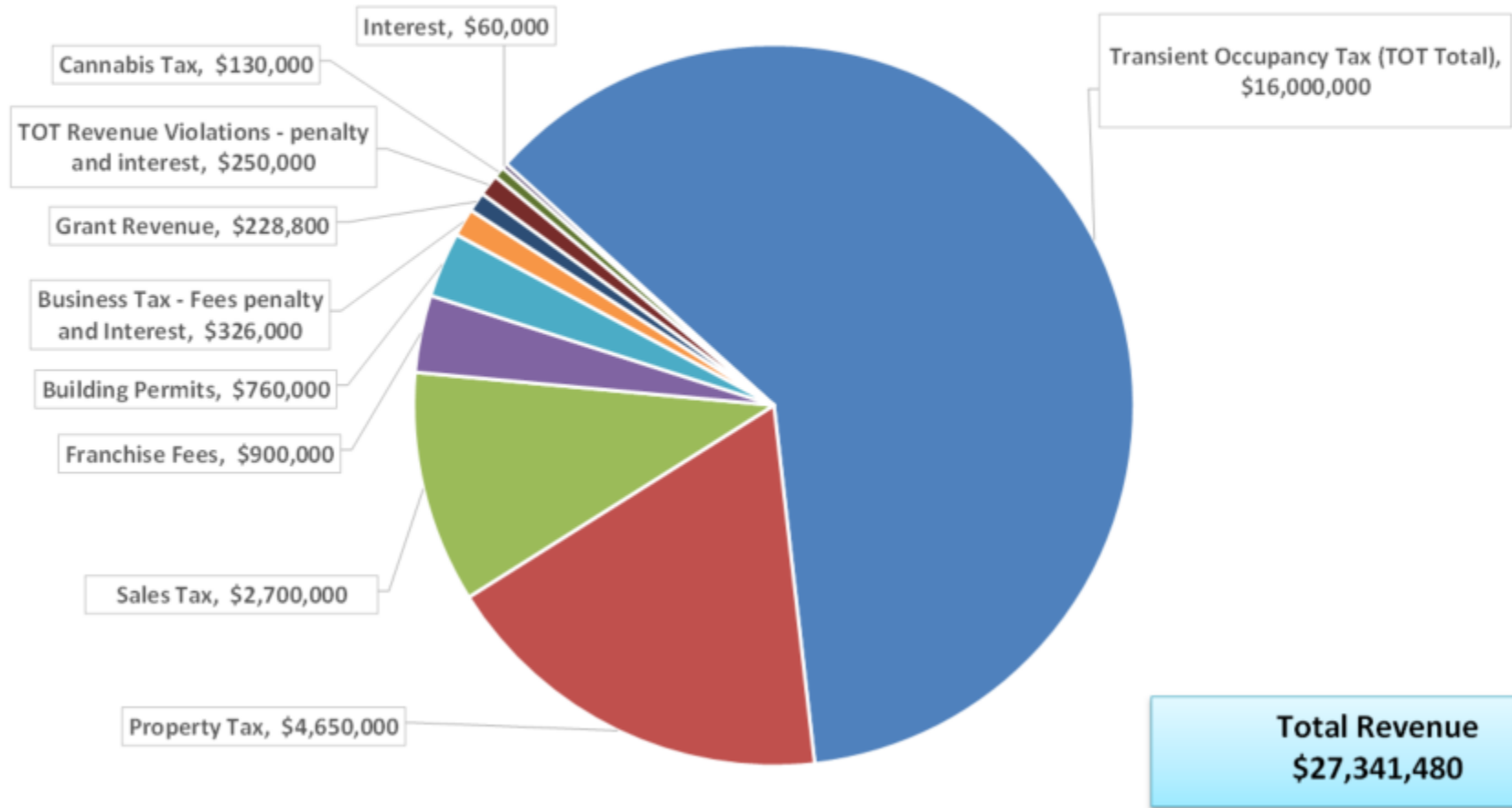
Other Revenues

Other Revenues represent 10.4% of the General Fund revenue and includes a variety of fees and charges for service, interest, grants, etc. Some of the larger elements include the annual COPs grant (\$100,000) and tobacco grant (103,800); business license (\$326,000); building permit fees (\$760,000); planning and zoning applications (\$120,000); TBID Administrative fee (\$100,000); and facility rentals; (\$165,000); transit fee (\$125,000). The category incorporates planning fees; other development related fees; charges for programs; licenses and permits; interest, and miscellaneous administrative fees. The projected revenue is approximately \$2,841,480.

Major Revenue Components

| Item | FY2019-20 Actual | FY20-21 Actual | FY21-22 Adopted Budget | FY22-23 Proposed Budget | Variance to FY21-22 | % of Total Revenue |
|--|----------------------|----------------------|---------------------------|----------------------------|------------------------|-----------------------|
| Transient Occupancy Tax (TOT) | \$ 15,911,859 | \$ 16,599,247 | \$ 14,500,000 | \$ 16,000,000 | \$ 1,500,000 | 58.5% |
| TOT Revenue Violations | \$ 94,039 | \$ 148,977 | \$ 60,000 | \$ 100,000 | \$ 40,000 | 0.4% |
| TOT Penalty and Interest | \$ 267,207 | \$ 167,766 | \$ 130,000 | \$ 150,000 | \$ 20,000 | 0.5% |
| Total TOT Revenue | \$ 16,273,104 | \$ 16,915,990 | \$ 14,690,000 | \$ 16,250,000 | \$ 1,560,000 | 59.4% |
| Property Tax | \$ 4,054,115 | \$ 4,572,245 | \$ 4,214,850 | \$ 4,650,000 | \$ 435,150 | 17.0% |
| Sales Tax | \$ 2,372,657 | \$ 2,513,299 | \$ 2,600,000 | \$ 2,700,000 | \$ 100,000 | 9.9% |
| Franchise Fees | \$ 851,036 | \$ 858,936 | \$ 812,000 | \$ 900,000 | \$ 88,000 | 3.3% |
| Other Revenue | | | | | | |
| Building Permits | \$ 623,387 | \$ 934,970 | \$ 700,000 | \$ 760,000 | \$ 60,000 | 2.8% |
| Business Tax (New, Renewal, and Penalties) | \$ 360,535 | \$ 336,897 | \$ 338,000 | \$ 326,000 | \$ (12,000) | 1.2% |
| Cannabis Tax | \$ 160,539 | \$ 161,553 | \$ 130,000 | \$ 130,000 | \$ - | 0.5% |
| Interest | \$ 353,569 | \$ 150,389 | \$ 49,670 | \$ 60,000 | \$ 10,330 | 0.2% |
| Grant Revenue | \$ 481,925 | \$ 380,379 | \$ 125,000 | \$ 228,800 | \$ 103,800 | 0.8% |
| Misc Revenue | \$ 1,509,888 | \$ 2,393,424 | \$ 1,215,229 | \$ 1,336,680 | \$ 121,451 | 4.9% |
| Total Budgeted Revenue (General Fund) | \$ 27,040,754 | \$ 29,218,082 | \$ 24,874,749 | \$ 27,341,480 | \$ 2,466,731 | 100.0% |

FY22-23 General Fund Revenue



Other Funds

The Town has other funds that will be incorporated into the preliminary budget such as Gas Tax, Airport, Vehicle maintenance and replacement, Measures R & U, and a number of smaller funds, such as the various assessment districts. Finalizing both revenues and expenses for several of these funds is tied to the General Fund. Using the direction provided on the above revenues will assist staff in proceeding with the next step in the budget cycle.

CONCLUSION

Your Town leadership team and finance staff have put in a number of hours in preparing for the budget cycle. They are committed to working within the Towns' financial limits and the policy direction provided by Town Council as we provide services to our community. Council discussion and recommendation on the key revenue components of the FY22-23 budget are a critical first step in the development of our budget. As the budget cycle progresses, staff will provide additional budget details, comparisons and other relevant information that serves to inform the overall budget development.