

## **TOWN COUNCIL STAFF REPORT**

Title: FY2023-24 Budget – General Fund Revenue Projections

Meeting Date: March 15, 2023

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### **RECOMMENDATION:**

Staff is requesting Town Council comment and direction on proposed revenue projections that will assist staff in preparing the preliminary FY23-24 budget to be presented on April 12th 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 on 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 tentatively set for April 12<sup>th</sup>.

### **FY23-24 General Fund Revenue Projections**

In preparing for the FY23-24 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 FY22-23 Budget as a point of comparison as well as trends over the past several years. The preliminary base operating revenue for FY23-24 is \$30,103,400 which represents an 8.9% increase from prior year adopted budget (\$27,630,890). This increase is consistent with natural growth of the organization as we have enhanced our core services to meet the needs of our community.

### **Transient Occupancy Tax**

The base Transient Occupancy Tax (TOT) is recommended at \$18.0 million this year, which is \$2,000,000 or 12.5% higher than last year and represents 59.8% of the General Fund budgeted revenue for FY23-24. We believe this base TOT is sustainable based on summer / winter diversification and TBID supported 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 and revenues. 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 a system to provide financial capital to further our projects, over and above our operating needs.

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. We do anticipate continued growth 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 9, 6, & 3 years is provided.

### Transient Occupancy Tax Analysis

| Fiscal Year   |              |               |               | Actual Variance to |                |                 |
|---------------|--------------|---------------|---------------|--------------------|----------------|-----------------|
|               | Non-Winter   | Winter        | Total         | Adopted Budget     | 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** | \$ 5,808,258 | \$ 10,103,601 | \$ 15,911,859 | \$ 13,500,000      | \$ 2,411,859   | \$ 15,904,700   |
| FY2020 - 21** | \$ 8,635,050 | \$ 7,964,197  | \$ 16,599,247 | \$ 11,200,000      | \$ 5,399,247   | \$ 16,564,000   |
| FY2021 - 22   | \$ 9,802,091 | \$ 16,841,118 | \$ 26,643,209 | \$ 14,500,000      | \$ 12,143,209  | \$ 26,610,000   |
| FY2022 - 23*  | \$ 7,495,691 | \$ 9,066,875  | \$ 16,562,566 | \$ 16,000,000      | \$ 562,566     | \$ 20,000,000   |

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

\*\* = Year Heavily Impacted by COVID-19

| Average | Non-Winter   | Winter        | Total         |
|---------|--------------|---------------|---------------|
| 9 Year  | \$ 6,805,854 | \$ 10,164,146 | \$ 16,970,000 |
| 6 Year  | \$ 7,636,178 | \$ 11,584,529 | \$ 19,220,707 |
| 3 Year  | \$ 8,081,800 | \$ 11,636,305 | \$ 19,718,105 |

Note:

Winter = December - April (5 Months)

Non Winter = May - November (7 Months)

**Staff Recommendation** \$ 18,000,000 12.5%





**Franchise Fees**

Franchise Fee revenue estimate of \$900,000 represents 3.0% of the General Fund revenue budget for FY23-24. The Town receives franchise fees for Solid Waste, Electricity, Gas and Cable. The budgeted revenue is equal to recommendation so no adjustment recommended for this year. 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 realized the increase in the current year and staff expects this to perform to budget expectations. These line items are heavily dependent on visitation as they represent utilization of services. Based on this fact, staff expects the current year to over perform expectations, however predicting future growth is where staff usually remains conservative, therefore, staff is recommending a continuation of current revenue expectations for this component. Below you will find a historical representation of combined franchise fees.

**Franchise Fee Analysis**

| Fiscal Year  | Actuals      | Adopted Budget | Actual Variance to Adopted Budget | Actual % increase |
|--------------|--------------|----------------|-----------------------------------|-------------------|
| FY2013 - 14  | \$ 787,727   | \$ 729,963     | \$ 57,764                         |                   |
| FY2014 - 15  | \$ 787,331   | \$ 790,000     | \$ (2,669)                        | -0.1%             |
| FY2015 - 16  | \$ 637,607   | \$ 804,705     | \$ (167,098)                      | -19.0%            |
| FY2016 - 17  | \$ 1,010,266 | \$ 811,656     | \$ 198,610                        | 58.4%             |
| FY2017 - 18  | \$ 911,173   | \$ 813,000     | \$ 98,173                         | -9.8%             |
| FY2018 - 19  | \$ 910,190   | \$ 830,000     | \$ 80,190                         | -0.1%             |
| FY2019 - 20  | \$ 852,565   | \$ 845,000     | \$ 7,565                          | -6.3%             |
| FY2020 - 21  | \$ 858,936   | \$ 770,000     | \$ 88,936                         | 0.7%              |
| FY2021 - 22  | \$ 918,042   | \$ 812,000     | \$ 106,042                        | 6.9%              |
| FY2022 - 23* | \$ 335,918   | \$ 900,000     |                                   |                   |

\* Partial Year

|        | Average | Total   |
|--------|---------|---------|
| 9 Year | \$      | 852,649 |
| 6 Year | \$      | 910,195 |
| 3 Year | \$      | 876,514 |

**Staff Recommendation** \$ **900,000** **0.0%**

## Other Revenues

Other Revenues represent 11.6% of the General Fund revenue and include a variety of fees and charges for service, interest, grants, etc. Some of the larger elements include the annual COPs grant (\$100,000); cannabis tax (\$130,000); business license (\$360,000); building permit fees (\$800,000); planning and zoning applications (\$196,000); TBID Administrative fee (\$126,000); and facility rentals; (\$165,000); recreation program fees (\$160,000); transit fee (\$135,000), and transfer – in (\$375,000). Transfer In represents monies allocated from other funds to cover expenditures in the General Fund. The major elements included here are Tourism Reserve support for host program and fish stocking as well as Measure R and U support for the Office of Outdoor Recreation. In addition to the specific items listed above, other revenues include planning fees; other development related fees; charges for programs; licenses and permits; interest, and miscellaneous administrative fees. The projected revenue is approximately \$3,498,400.

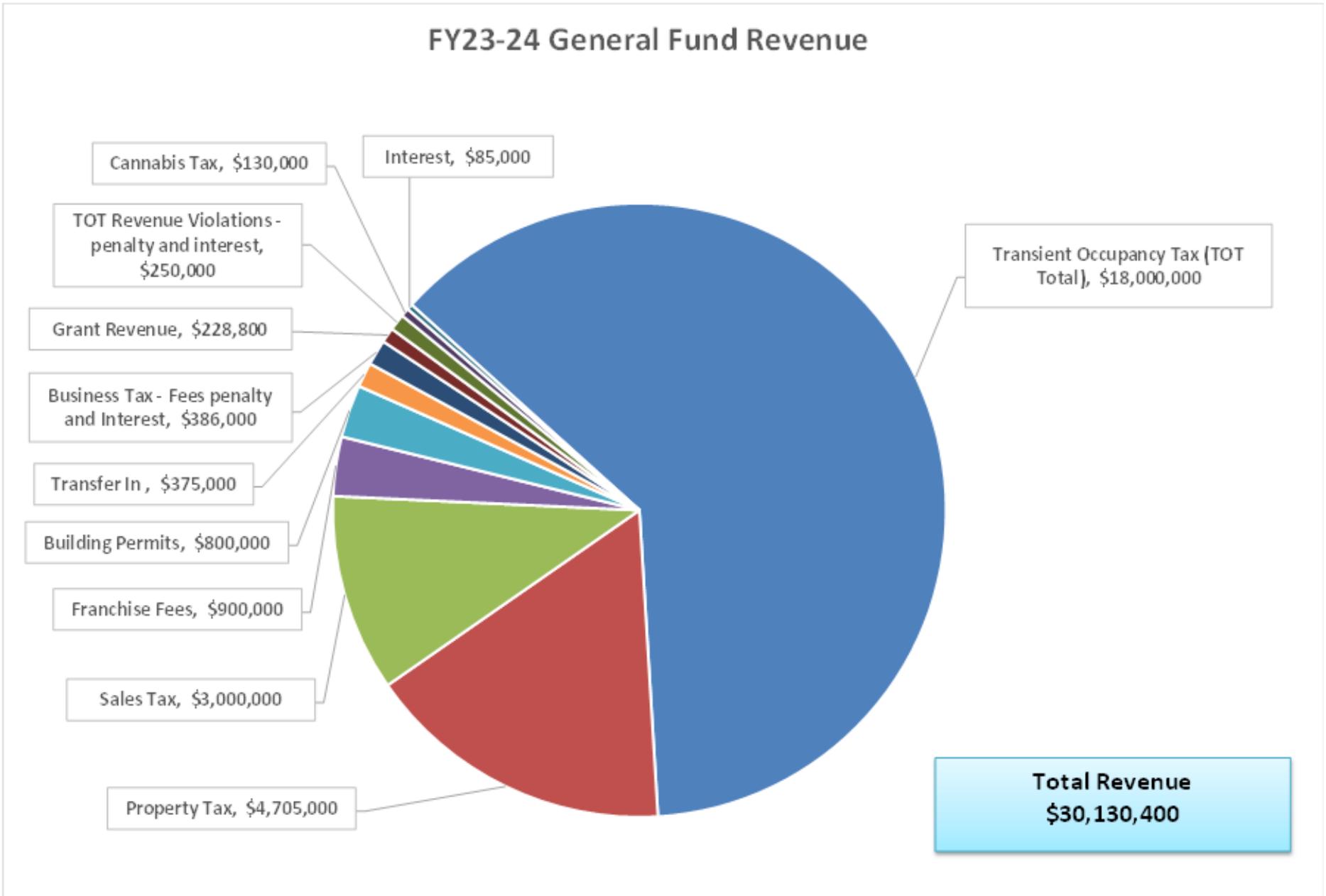
## Key Revenue Components - General Fund

| Item  | Amount               | % of Total Revenue |
|---|----------------------|--------------------|
| Transient Occupancy Tax (TOT)   | \$ 18,000,000        | 59.8%              |
| Property Tax  | \$ 3,755,000         | 12.5%              |
| Sales Tax   | \$ 3,000,000         | 10.0%              |
| Community Development Permits   | \$ 996,500           | 3.3%               |
| Property Tax in Lieu VLF  | \$ 950,000           | 3.2%               |
| Franchise Fees  | \$ 900,000           | 3.0%               |
| Business Tax - Fees penalty and Interest  | \$ 562,000           | 1.9%               |
| Other Revenue   | \$ 518,500           | 1.7%               |
| Recreation Programs   | \$ 343,000           | 1.1%               |
| TOT Penalty and Interest  | \$ 250,000           | 0.8%               |
| Public Safety   | \$ 327,400           | 1.1%               |
| Transit Fee   | \$ 135,000           | 0.4%               |
| Interest  | \$ 85,000            | 0.3%               |
| Charges for Services (TBID Collection, Clerk Duties, Snow Removal Civic Center) | \$ 181,000           | 0.6%               |
| Whitemore Pool County Share 50%   | \$ 100,000           | 0.3%               |
| <b>Total Budgeted Revenue</b>   | <b>\$ 30,103,400</b> | <b>100.0%</b>      |

## Major Revenue Components

| Item   | FY20-21<br>Actual    | FY21-22<br>Actual    | FY22-23<br>Adopted Budget | FY23-24<br>Proposed Budget | Variance to<br>FY22-23 | %            | % of Total<br>Revenue |
|--|----------------------|----------------------|---------------------------|----------------------------|------------------------|--------------|-----------------------|
| Transient Occupancy Tax (TOT)                | \$ 16,599,247        | \$ 26,643,209        | \$ 16,000,000             | \$ 18,000,000              | \$ 2,000,000           | 12.5%        | 59.8%                 |
| TOT Revenue Violations                       | \$ 148,977           | \$ 201,286           | \$ 100,000                | \$ 100,000                 | \$ -                   | 0.0%         | 0.3%                  |
| TOT Penalty and Interest                     | \$ 167,766           | \$ 257,665           | \$ 150,000                | \$ 150,000                 | \$ -                   | 0.0%         | 0.5%                  |
| <b>Total TOT Revenue</b>                     | <b>\$ 16,915,990</b> | <b>\$ 27,102,161</b> | <b>\$ 16,250,000</b>      | <b>\$ 18,250,000</b>       | <b>\$ 2,000,000</b>    | <b>12.3%</b> | <b>60.6%</b>          |
| Property Tax                                 | \$ 4,572,245         | \$ 4,736,931         | \$ 4,650,000              | \$ 4,705,000               | \$ 55,000              | 1.2%         | 15.6%                 |
| Sales Tax                                    | \$ 2,513,299         | \$ 3,358,773         | \$ 2,700,000              | \$ 3,000,000               | \$ 300,000             | 11.1%        | 10.0%                 |
| Franchise Fees                               | \$ 858,936           | \$ 918,042           | \$ 900,000                | \$ 900,000                 | \$ -                   | 0.0%         | 3.0%                  |
| <b>Other Revenue</b>                         |                      |                      |                           |                            |                        |              |                       |
| Building Permits                             | \$ 934,970           | \$ 1,219,892         | \$ 760,000                | \$ 800,000                 | \$ 40,000              | 5.3%         | 2.7%                  |
| Business Tax (New, Renewal, and Penalties)   | \$ 336,897           | \$ 393,892           | \$ 336,000                | \$ 386,000                 | \$ 50,000              | 14.9%        | 1.3%                  |
| Cannabis Tax                                 | \$ 161,553           | \$ 158,723           | \$ 130,000                | \$ 130,000                 | \$ -                   | 0.0%         | 0.4%                  |
| Interest                                     | \$ 150,389           | \$ 129,617           | \$ 85,000                 | \$ 85,000                  | \$ -                   | 0.0%         | 0.3%                  |
| Grant Revenue                                | \$ 380,379           | \$ 297,213           | \$ 228,800                | \$ 228,800                 | \$ -                   | 0.0%         | 0.8%                  |
| Transfer In                                  | \$ 623,000           | \$ 160,027           | \$ 375,000                | \$ 375,000                 | \$ -                   |              | 1.2%                  |
| Misc Revenue                                 | \$ 183,164           | \$ 1,770,424         | \$ 1,216,090              | \$ 1,243,600               | \$ 27,510              | 2.3%         | 4.1%                  |
| <b>Total Budgeted Revenue (General Fund)</b> | <b>\$ 27,630,823</b> | <b>\$ 40,245,695</b> | <b>\$ 27,630,890</b>      | <b>\$ 30,103,400</b>       | <b>\$ 2,472,510</b>    | <b>8.9%</b>  | <b>100.0%</b>         |

## FY23-24 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 Town's 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 FY23-24 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.