

CITY OF COLONIAL HEIGHTS, VIRGINIA ONE AND FIVE-YEAR SENSITIVITY ANALYSES

The FY2020-21 Operating Budget as adopted was based on economic assumptions and revenue forecasts prior to the world-wide Covid-19 pandemic and associated response measures put significant strains on the local, state, national, and global economies. City leadership made the informed choice to move forward with the adoption of the FY2020-21 Operating Budget as presented, understanding that significant spending controls had already been put into place for the current year and would continue to be in place for at least the initial months of the new fiscal year. The smaller size of City's operations and existing business processes make it entirely possible for these controls to be an effective means of reducing expenditures, even if appropriations are available.

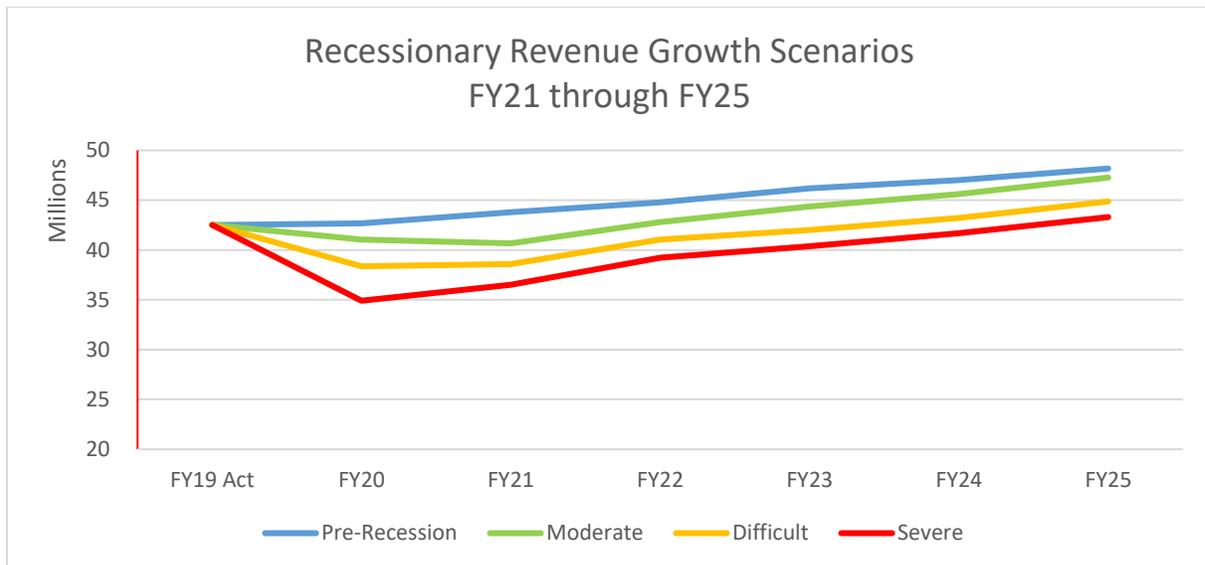
Concurrently with the development and presentation of this budget, Finance staff developed a model of the City's top six revenue sources. The anticipated economic impact of reduced revenues due to Covid-19 was individually modeled for each revenue stream under a moderate, difficult, and severe scenario. The model provided management with a dynamic tool to estimate the range of impact which will be updated as additional information and actual revenue collections materialize.

The assumptions used in the current version of the sensitivity analysis for FY21 are as follows:

- Economic recovery beginning by January 1, 2021, but prolonged economic impact over the next four years (a "U" shaped economic impact). A partial recovery at an earlier date ("✓" shaped economic impact) or full recovery after a steeper decline ("V" shaped economic impact) may require some adjustments to the length of the impact, but could potentially be offset by the change in duration.
- Real Estate will experience mild collection impacts, but the assessed values, which are based on a general reassessment at January 1, 2020, will hold.
- Sales tax is expected to experience 20% to 40% declines through calendar 2020.
- Meals tax is expected to experience 20% to 60% declines through calendar 2020.
- Business Licenses are expected to experience 30% to 50% declines, as collections in March 1 are based on calendar year 2020 gross receipts.
- Personal Property is expected to experience mild collection impacts and some slight impacts on assessed value as taxpayers hold on to vehicles longer or possibly sell personal property.
- Lodging tax is expected to experience 40% to 75% declines through calendar 2020.

The chart on the following page illustrates the impact of the anticipated "U shaped" recovery under the moderate, difficult, and severe impact scenarios given the economic assumptions for the short term and some longer-term growth assumptions carried out over the remaining four years:

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Under the middle, “Difficult” scenario, anticipated FY21 revenue losses are approximately \$5.2 million compared to the pre-recessionary FY21 budget and \$3.4 million compared to the FY20 (current year) budget.

These top six revenue sources are shared with Colonial Heights Public Schools under a Memorandum of Understanding (“MOU”) which specifies that 50.73% of these six revenue sources are the amount transferred for local support of the public school system. As such, CHPS will share in approximately half of the revenue loss, with the other half being borne by City general fund operations.

The City’s share of anticipated revenue shortfalls in FY21 will be offset by significant expenditure reductions in the general fund. Spending controls in place in the current year which will continue into FY21 include:

- A hiring freeze for vacant positions unless approved by City Manager on a case-by-case basis.
- A freeze on unspent capital outlay in department budgets, unless approved by the City Manager.
- A freeze on non-essential spending, unless approved by City Manager.
- A hold on implementation of the City’s pavement preservation program.

Additional spending controls being put in place for FY21 include:

- A hold on the budgeted 2.5% cost-of-living adjustment proposed for City staff July 1, 2020.
- Additional funds originally earmarked for street maintenance have been moved to contingency.
- Freeze on implementation of several upgraded positions.
- A hold on additional part-time funding in several departments.

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- A freeze on certain new initiatives and contributions to FY 20 levels.
- A freeze on the General Fund transfer to the CIP for several projects.

It is anticipated that with these spending controls in place, the City will be able to offset a significant amount of the difficult scenario revenue losses. As information on the severity of the economic impact develops, Finance staff will update the model and City Management will implement additional spending controls or reduce existing spending controls as appropriate.