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MEMORANDUM

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P.O. Box 4100 ♦ FRISCO, COLORADO 80443

**TO: MAYOR AND TOWN COUNCIL**

**FROM: BONNIE MOINET, FINANCE DIRECTOR AND  
NANCY KERRY, TOWN MANAGER**

**RE: DISCUSSION REGARDING POTENTIAL BUDGET AMENDMENT FOR 2021**

**DATE: MARCH 23, 2021**

**Summary and Background:**

On March 11, 2020, the World Health Organization (WHO) declared Coronavirus-10 (COVID-19) a pandemic effecting the entire globe. At that time, the impacts to the Town of Frisco were unknown, as they were throughout the country. Early estimates projected losses of annual revenue between 25% and 50%, or \$3M and \$6.7M, and that economic uncertainty would continue throughout 2020 and into 2021. At the beginning of the crisis and still ongoing, however, the Town took steps to establish relief programs to aid businesses and individuals within the town to assist them in dealing with the extreme economic impacts that resulted from public health regulations. The Town also began investing in recovery efforts by converting Main Street to a pedestrian mall and establishing programs to encourage local lodging and shopping.

In addition to providing assistance to the community, the Town tightened its own spending and continued evaluating its current financial position. Through that process, many areas were identified where savings could be realized, in particular deferral of capital projects amounting to approximately \$4.7M. The Town also established a \$7M economic stabilization reserve in the event these early drastic revenue loss projections proved correct. The 2020 budget was amended in July of 2020 to reflect those changes.

With the economic uncertainties still prevailing during preparation of the 2021 budget, it was adopted with conservative appropriation for capital projects with direction to reevaluate the Town's financial position in the spring of 2021.

This discussion is before the Town Council to address changes to the Town's financial position since adoption of the budget, reconsider capital appropriations and other items not requested during the budget process.

In addition, the Town Council recently discussed reallocating revenues in the Lodging Tax Fund and therefore, this is an appropriate time to make those changes – or during the preparation of the 2022 budget.

**Analysis:**

**Net Fund Balances**

As mentioned above, in 2020, the Town took internal steps to mitigate possible financial impacts of the COVID -19 pandemic: (1) deferred 2020 capital projects of \$4.7M in the Capital Improvement Fund and transferred this amount to the General Fund; (2) did not transfer nearly \$900,000 from the General Fund to the Capital Improvement Fund; and (3) designated an economic stability reserve of \$7M in the General Fund. In addition, (4) Town staff focused diligently on reducing expenditures as much as possible; and (5) the Town Council invested over \$1M in direct grant funding to residents and local businesses in order to help sustain both individuals and businesses during the pandemic.

In fact, while many individuals and businesses received assistance from sources other than the Town of Frisco, there seems little doubt the steps the Town implemented to assist its community were extremely beneficial. Instead of significant losses of sales tax revenues, sales taxes surprisingly surpassed budgeted projections by 6% or \$685,217.

Overall, as shown on Exhibit 1, 2020 major fund revenues exceeded budget figures by 8%, or \$1,684,088; similarly, General Fund expenditures were under budget by 15.5%, or \$2,138,851 (as were other major fund expenditures).

Notably, as a result of the actions described above, and the economic resiliency of the Town's local businesses of which the Town's general fund revenues are derived, the Town's net General Fund Balance at the end of 2020 is \$17,080,186, with a positive budget variance of \$9,821,299 (Table 1, below). It is important to note, the majority of these funds have been realized as a result of the \$4.7M in deferred capital projects, nearly \$1M held from 2020 and not transferred to the Capital Fund, \$2.1M in reduced expenses, and \$1.7M in additional revenue, which in total accounts for variance in the General Fund. The remaining other fund balances (Capital, SCHA, Water, and Marina) are primarily the result of deferred capital expenses.

**Table 1: 2020 TOF Ending Fund Balances**

<b><u>Major Fund</u></b>	<b>Budget</b>	<b>Actual</b>	<b>\$ Variance</b>
General Fund	\$7,258,887	\$17,080,186	\$9,821,299
Capital Improvement Fund	\$1,983,163	\$3,290,732	\$1,307,569
SCHA Fund	\$2,984,885	\$6,600,846	\$3,615,961
Water Fund	\$2,999,993	\$4,566,194	\$1,566,201
Marina Fund`	\$2,624,422	\$5,132,654	\$2,508,232
<b>Total Major Funds</b>	<b>\$17,851,350</b>	<b>\$36,670,612</b>	<b>\$18,819,262</b>

**Proposed Amendments for 2021**

**Capital Projects (Exhibit 2)**

As shown on Exhibit 1, a variety of projects or portions of capital projects were deferred for 2020 in anticipation of an economic slowdown during the pandemic.

Although many projects were deferred, staff is not recommending much of a change for a 2021 budget amendment, except to (1) replenish the funding to complete the Walter Byron Park as recently requested by the Town Council, (2) restore \$50,000 each to the storm water and asphalt repair budget, and (3) eliminate the \$15,000 set aside to redesign the Town Hall Atrium.

In addition, staff estimates an additional \$150,000 will be needed in 2021 for the GAP project and the 2021 budget eliminated funding for the Police Department remodel and expansion. The RFP for the remodel is nearly complete and staff will return to the Council for consideration once bids are received.

**New Request (Exhibit 3)**

As shown in Exhibit 3, a new request of \$120,000 needs to be included in the budget amendment ordinance to account for the F3 contract for administrative services at the Marina (these funds will be budgeted in the Marina).

**General Fund Expenditures (Exhibit 4)**

As shown in Exhibit 4, the Town Council reduced several general fund expenses related to unfilled positions and employee benefits, as well as some safety and environmental projects, also in anticipation of reduced revenues. In the information is presented should the Town Council desire to make any changes to these categories.

**Staffing Changes (Exhibit 5)**

There are a several requested changes to positions shown on Exhibit 5.

Two long-time employees recently informed their supervisor they are retiring this year, one in Community Development and one in Public works. Staff recommends appropriating sufficient funds to hire replacement staff months prior to the retirement of the incumbent to provide time for training. Also shown on Exhibit 5, is the cost of the reorganization of the positions in the Marina to improve operations.

**Other Changes to 2021 Budget**

General Fund:

The Town is eligible for \$681,000 Federal funding under the American Rescue Plan. The Town expects to receive 50% of that amount within 30 days, with the remainder to be remitted to the Town within the next year. Eligible uses for this funding include revenue replacement to the extent the reduction in revenue was caused by the COVID-19 public health emergency, assistance to small businesses, households and hard-hit industries and economic recovery and investments in water, sewer and broadband infrastructure. Staff will include \$340,500 (50% of \$681,000) as a revenue increase in the budget amendment ordinance presented to Council in April.

**Marina Fund:**

Staff is also proposing a revenue budget amendment in the Marina Fund to increase the rental revenues by \$200,000, from \$900,000 to \$1.1M. Rental boats at the marina brought in nearly \$1.5M in 2020, far exceeding the budget of \$750,000. Continued high numbers of tourist visits to Summit point to another summer of high demand for rental boats. Staff believe that an increase to the rental boat revenue budget is warranted and will cover some of the increased expenses related to staffing that are being discussed as part of this budget amendment. Staff considers this revenue increase proposal is reasonable and, with the increase in rental boat rates, which Council approved on December 8, 2020, can be achieved even if the volume of individual rentals this summer is less than it was in 2020. This increase, if approved by Council, will be brought to Council as part of the budget amendment ordinance.

**Lodging Tax Fund**

The Lodging Tax Fund, while not a major fund, ended 2020 with an ending fund balance \$166,996 higher than budgeted, or \$773,781. Should the Town Council wish to reallocate funds in the Lodging Tax Fund as recently discussed, staff seeks that direction from Town Council at this time.

**Staff Recommendation:**

1. Lodging Tax Fund – staff recommends leaving this fund intact with the exception of (a) transferring the VIC bathroom design upgrade of \$20,000 from the Capital Improvement Fund. Staff's recommendation to retain the ending fund balance of \$773,781 would allow for future construction of bathrooms to be paid from this fund as qualified expense.
2. Capital Improvement Fund – As shown on Exhibit 2, staff recommends:
  - a. budget appropriations in the amount of \$435,000 for capital projects that can reasonably be completed in the summer of 2021, and
  - b. plus an additional \$150,000 for the gap project, and
  - c. an amount for the Police Department remodel should the Town Council approve that project. If the Town Council tentatively approves going forward with the Police Department remodel, staff recommends directing staff to include an appropriation in the amount of \$600,000, which is estimated to cover that project.
3. Marina Fund -- staff recommends including \$120,000 for the F3 Marina services contract previously approved by the Town Council and the sufficient funds to cover the reorganization of positions in the Marina.
4. Staff also seeks direction from the Town Council for any other changes to the General Fund and Capital Project Improvement Fund as shown in the attached exhibits and explained in this report.

**Attachments:**

- Exhibit 1: Comparison of Major Fund Revenues, Expenditures and Fund Balances
- Exhibit 2 – Capital Projects Deferred and Recommendations
- Exhibit 3 – New Requests
- Exhibit 4 – General Fund Expenditures Reduced for 2021 Budget
- Exhibit 5 – Changes to Positions