



Pandemic Impact on Borough's Financial Position

September 30, 2020

Pandemic Impact and Tracking

This report will discuss the financial performance during the pandemic. It will also summarize the municipal response to the pandemic as well as issues that could potentially have a long term negative impact on Borough finances.

Administration continues to monitor financial performance. We are tracking the following metrics:

- Tax Collection Rate
- Utility Revenue
- Other Municipal Revenues
- Pandemic Related Expenses

Headline: Administration anticipates a drop in revenue of \$1.2 million in 2020 between the municipal and utilities due to the pandemic.

Tax Collection Rate

The Tax Collection Department tracked daily receipts and collection rates for 2020 compared to prior years. So far, the Borough's tax collection rate has been in line with years past.

	2020	2019	2018	2017
Q2 Tax Collection as of June 1 st	97.5%	97.2%	97.8%	96.3%
Q3 Tax Collection as of Sept. 1 st	98.9%	98.6%	53.8%*	98.1%

* Note 2018 Q3 deadline was extended due to delay in County certification of the tax rate.

Tax Collection Rate

Residences with mortgages typically have property taxes escrowed with their monthly mortgage payment. These property taxes are aggregated and paid directly to the Borough from Escrow Agents. The three primary agents are CoreLogic, Wells Fargo and Lereta. Approximately 43% of the quarterly taxes are paid for thru escrow agents.

Tax Collection has historically been a LAGGING indicator of the economy. We typically don't see a reduction in the tax collection rate until well into a recession. **If the economy continues to struggle, tax collection could be an issue.**

Utility Revenue (billing)

	2020	2019	2018*
Water	\$1,867,379	\$1,718,161	\$1,758,040
Electric - Residential	\$7,619,690	\$7,042,787	\$7,424,971
Electric – Commercial/Institutional	<u>\$7,976,113</u>	<u>\$8,862,237</u>	<u>\$9,172,048</u>
TOTAL ELECTRIC	\$15,559,717	\$15,868,695	\$16,597,019

It was a hot, dry summer. Water Utility Revenues are \$100,000+ ahead compared to past years. Even with the heat, Electric Utility billing is down \$308,978 year to date. Customers are not paying their utility bills as quickly. On September 24, we had \$264,000 more in outstanding bills compared to the same day in 2019. **We believe electric utility revenue could be down by over \$700,000 by year end.**

* Note, the Dividend is \$2 million in 2020 and 2019 versus \$1.5 million in 2018.

Other Municipal Revenues

Most revenues are in line with prior years including revenues from licenses, permits, interest on delinquent taxes, cable franchise, cell tower leases and construction permit fees.

However, there are a few revenue lines that are down significantly including:

Revenues 1/1 – 9/24	2020	2019	Difference	Anticipated Decrease for the year
Municipal Court Fines and Fees	\$57,898	\$116,736	- \$58,838	- \$90,000
Commuter Daily Parking Fees*	\$25,480	\$61,935	- \$36,455	- \$47,000
Interest on Bank Balances	\$107,604	\$297,723	-\$190,119	- \$300,000

Estimated loss of revenue in these three lines for the year is \$437,000. We can assume another \$50,000 in revenue lost across all other municipal budget lines, so **a total of \$500,000 in lost revenue is estimated**. This will impact two things. First, it will directly reduce municipal surplus by \$500,000. Second, it will leave us with a ‘revenue hole’ in the 2021 budget.

* Annual parking permits are typically sold at the end of the year for the following year. This generates \$200,000 in revenue in November and December.

Concerns for 2021 and beyond

- **COURT:** We get revenue from Court fines and fees. We also get shared service revenue from other towns for the Joint Court as well. We receive \$1,288 per court session from each town. We did not have any sessions for over six weeks and the number of sessions per month for some of the towns are down. Revenue from this source will be down \$30,000 or more in the 2021 budget.
- **OTHER REVENUES:** The lack of revenue from interest, parking and court are structural. In other words, they may not bounce back in 2021. Where do we make up that revenue?
- **BUDGET:** State Statute requires that budgeted revenues in the current year can not exceed actual revenues from the prior year. Even if the above items bounce back, we will have a 'revenue hole' to fill in the 2021 Budget. The Governor has suggested that the state may loosen this requirement for 2021.
- **OFFICE MARKET:** Office market (rental, occupancy etc.) will remain weak for most of 2021. Will it bounce back in 2022? If not, then the property taxes and utility revenue will drop. Where do we make up that revenue?
- **DELINQUENCIES:** There will be increased property tax and utility delinquencies if employment and the economy do not pick up.
- **FUTURE:** There is no upturn in sight. We must continue to monitor the situation and **be prepared for a long term economic downturn**. Fortunately, the Borough is in MUCH better shape than most municipalities because of the surpluses we had before the pandemic.

What can we do in 2021?

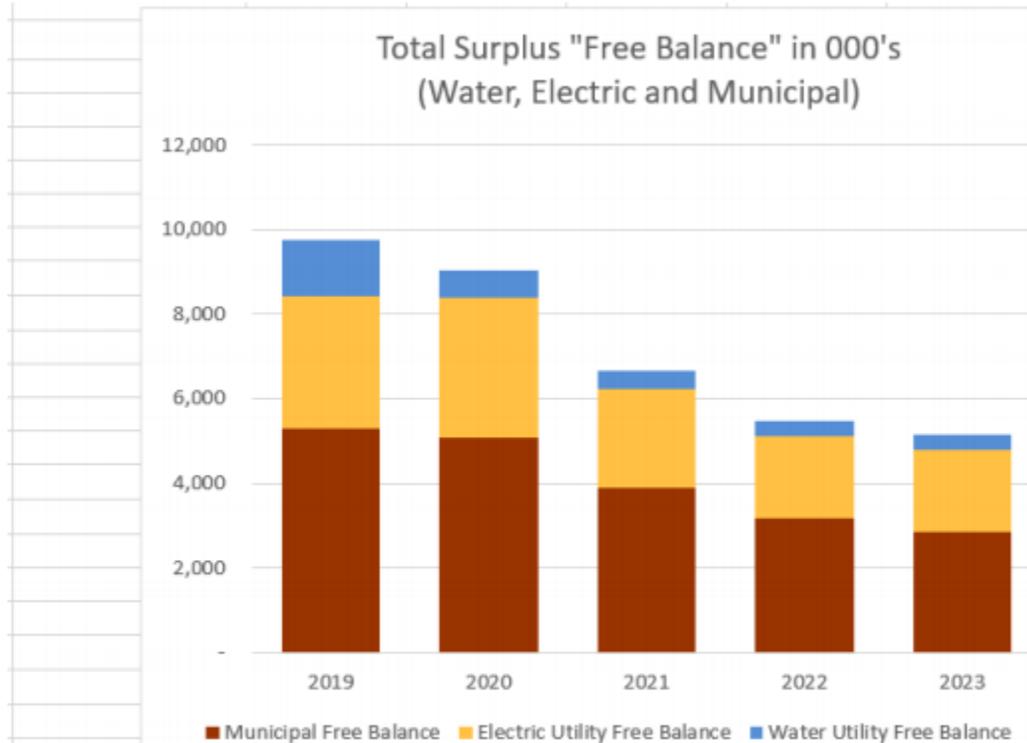
Fortunately, thanks to good decision making by the governing body we were in a strong surplus position before the pandemic. We have Surplus for 'the unknown' and the Pandemic was clearly unknown.

What levers do we have to deal with the \$1.2 revenue shortfall in 2021 and beyond?

- Capital. Reduce capital spending and appropriations in the 2021 budget. We reduced funds for capital in the municipal operating budget by \$300,000 in 2020. We will likely have to reduce that even more in 2021.
- Spending. Continue to look for efficiencies and savings.
- Moderate tax increase. Administration recommends a 2% property tax increase in 2021.
- Dividend reduction. Consider reducing the Electric Utility Dividend back to \$1.5 million.
- Use surplus. It is important to be prudent and know that using too much surplus in the budget is like buying groceries with your retirement savings. What will the surplus 'flight path' look like 2021 and beyond?
- Consider a water rate increase in 2021 or 2022.

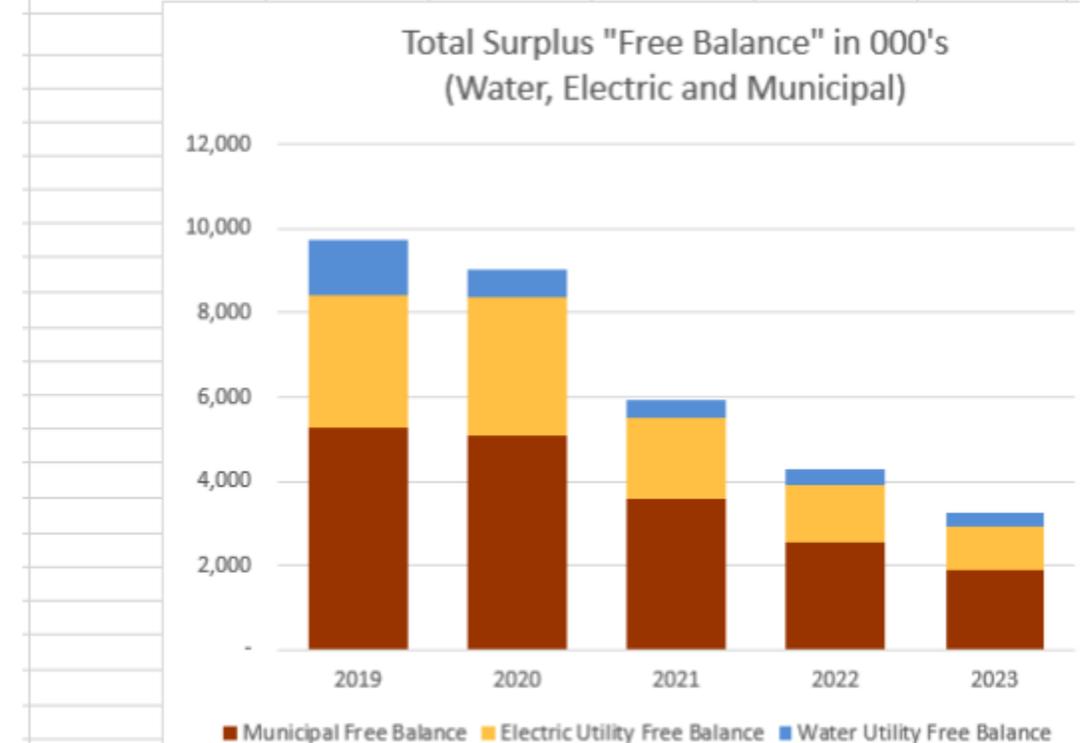
Surplus presented in April

Hopeful Scenario



Free Balance	2019	2020	2021	2022	2023
Water Utility	\$ 1,302	\$ 634	\$ 434	\$ 384	\$ 354
Electric Utility	\$ 3,159	\$ 3,320	\$ 2,334	\$ 1,934	\$ 1,934
Municipal	\$ 5,281	\$ 5,075	\$ 3,895	\$ 3,165	\$ 2,865
TOTAL	\$ 9,742	\$ 9,029	\$ 6,663	\$ 5,483	\$ 5,153

Less Optimal Scenario



Free Balance	2019	2020	2021	2022	2023
Water Utility	\$ 1,302	\$ 634	\$ 434	\$ 384	\$ 354
Electric Utility	\$ 3,159	\$ 3,320	\$ 1,934	\$ 1,334	\$ 1,034
Municipal	\$ 5,281	\$ 5,075	\$ 3,575	\$ 2,575	\$ 1,875
TOTAL	\$ 9,742	\$ 9,029	\$ 5,943	\$ 4,293	\$ 3,263

Municipal Covid-19 Response

Pandemic Related Expenses

The Governing Body had the foresight to appropriate \$200,000 in additional funds in the 2020 budget for COVID. A single budget line was created for pandemic related expenses.

To date, \$96,800 has been appropriated and \$103,200 is still available. Funds have been spent on thermal detectors, masks, hand sanitizer, various other PPE, parking barriers for restaurants, computer hardware to permit work from home and technology expenses including an upgraded Zoom Video Conferencing Account.

Municipal Covid Response - Operations

To ensure the continued operations of the Borough, staff took the following actions in response to the Covid-19 Pandemic:

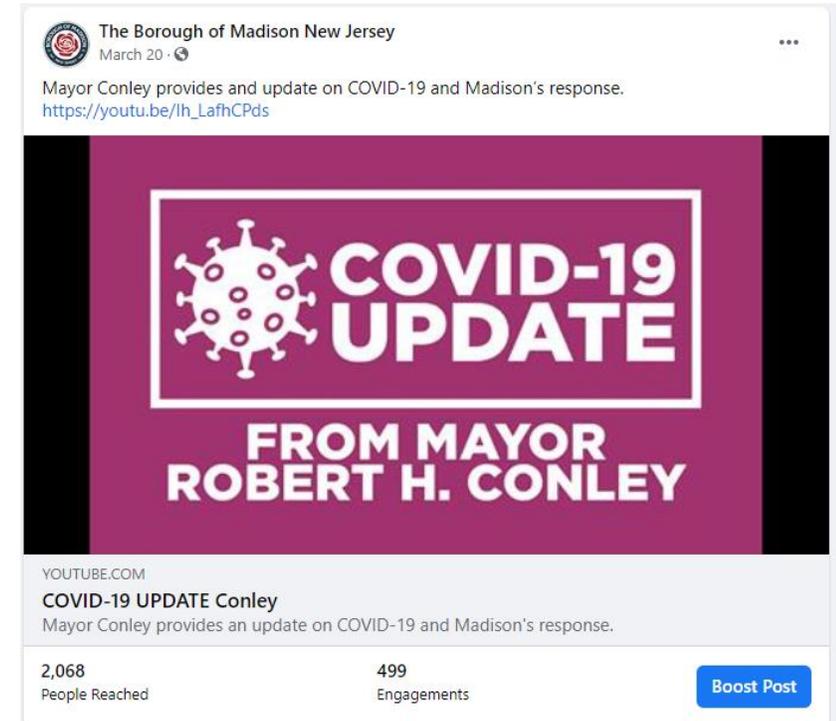
- Health Department and public health nursing staff have been on the front line with contact tracing and state reporting.
- With HD help, Our First Responders developed new protocols.
- Purchasing Department identified sources and acquired Personal Protective Equipment (PPE) for staff and first responders.
- From March 19th thru May 22nd Borough staff split into teams with 50% in office and 50% work from home / on-call. Admin and IT worked quickly to develop work from home capabilities
- HDM remained open with a special drop off window.
- August 31st HDM was opened to the public with greeters pre-screening residents for temperature and masks.
- Borough buildings continue to have enhanced cleaning.



Municipal Covid Response - Public

The Borough took the following actions in response to the Covid-19 Pandemic:

- The Borough extended second quarter property tax deadlines.
- Interest and penalties were waived on all utility charges.
- A \$200 electric rebate was offered for furloughed or unemployed residents (345 residents, \$69,000).
- A \$400 electric rebate was offered to downtown businesses (153 businesses, \$61,200 in total rebates).
- The Downtown Development Commission worked with the Madison Main Street Foundation to offer Small Business Recovery Grants of up to \$4,372 per business to 54 local businesses. Over \$190,000 was given to businesses with this program.
- Extensive Communication plan implemented to keep residents informed and to remind them of current pandemic guidelines.



Municipal Covid Response - Public

The Borough took the following actions in response to the Covid 19 Pandemic:

- All committees and commissions as well as Council are continuing to meet virtually.
- Municipal codes were suspended to allow businesses to have special pickup and drop off parking spots.
- Municipal codes were suspended to allow restaurants to expand outdoor dining.
- Parking Barriers were purchased and areas blocked off to allow restaurants to further expand outdoor dining in a safe manner.



Questions