



# CITY OF BLAINE

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**To:** City Council

**From:** Jeff Lazenby, Finance Director  
Michael Jones, City Manager

**Date:** April 9, 2020

**Subject:** Revenue Shortfall Projections

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The projections outlined in this memo are very preliminary. The ripple effects from the COVID-19 emergency, in particular the border closure, are expected to be significant. They will be felt for quite some time as there is a lag from when the impacts begin and when the City experiences them.

The last times the City faced a major economic downturn was the Great Recession and the resort closure. These events form a basis or reference point for determining estimated impacts to the budget. The projections described below have been developed using historical data from these two events. While we cannot predict the impacts accurately, we can model potentialities.

## **General Fund Revenue Forecasts**

A 10% decrease in total General Fund revenue is forecasted. Most of General Fund revenue is made up of taxes: property taxes, sales taxes, utility taxes, and business and occupation taxes. Fees for service and fines contribute to the General Fund, but the contribution is comparatively minor. The tax-generated revenue, which comprise 64% of total General Fund revenue, pay for general City services such as police, court, building permits and inspection, community development, and parks.

Sales tax revenue will take a major hit as this source is heavily dependent on cross-border economic activity. With that commerce activity at a basic standstill, we forecast that this revenue will decrease by approximately 20% (annually), which represents a \$417,000 decrease in the 2020 General Fund budget.

Another revenue source that will be impacted is the business and occupation tax. We forecast that this revenue will decrease by 36% from what was initially estimated in the 2020 budget. This, of course, depends on how much impact is felt by manufacturing

and wholesale businesses. Some businesses may be experiencing increased demand such as food manufacturing, whereas others are undoubtedly seeing decreased demand.

Revenue from development is projected to decrease to minimal levels due to the slowing or halting of construction activity. Depending on when the emergency order is lifted, we may see an uptick in this revenue source in May and June. We may also see a longer term effect due to slowing economic activity.

- Overall, the funding gap in the General Fund consists of an approximate \$700,000 shortfall.

### **Penny per Gallon Gas Tax**

Blaine's major revenue source for street maintenance is the penny per gallon gas tax. We project that the gas tax will decrease by 50%. The major driver behind this revenue is cross-border traffic. There is a direct correlation between border traffic, namely Canadians travelling back and forth, and purchase of fuel in Blaine. Except for essential business such as transportation of goods, border traffic has come to a halt. This is having a dramatic impact on an already stretched-thin Street Maintenance Fund.

The summer season is an opportune time for City crews to catch up on street maintenance. The severely reduced funding will create a burdensome backlog of maintenance projects. This will have ripple effects for quite some time.

### **Lodging Tax**

Overnight stays have declined, which directly impacts lodging tax and sales tax revenue. A 30% decrease in lodging tax is forecasted. This decrease will affect Blaine Tourism Advisory Committee (BTAC) grants awarded to groups that organize and coordinate the many tourism activities in Blaine.

### **Strategies**

Some strategies for addressing the anticipated shortfalls are the following:

- We have instructed department heads to curtail spending on non-essential items in anticipation of revenue losses, in particular travel and training and professional services.
- Departments are evaluating their budgets for potential cost savings.
- Public Works is evaluating which capital projects can be deferred.

Due to the way taxes are reported, collected and distributed to the City, there is a lag in data collection. As the situation continues to unfold we will update the Council on the economic outlook. In the next several weeks, we will likely request that Council take specific, preemptive action related to the budget forecast.