

MEGAN N. KILGORE

City Auditor

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THE CITY OF
COLUMBUS

OFFICE OF MEGAN N. KILGORE,
CITY AUDITOR

To: Mayor Andrew J. Ginther
City Attorney Zach Klein
Columbus City Councilmembers

From: Megan Kilgore, City Auditor

Date: June 9, 2020

Subject: Adjustment to the 2020 Official Revenue Estimate

Dear Colleagues:

The City Auditor's Office has been monitoring general fund revenues and key indicators to estimate the impact of the COVID-19 pandemic on City revenues for fiscal year 2020. **As a result of the COVID-19 pandemic, the 2020 Official Revenue Estimate is being reduced by a total of \$41.5 million (4.72% as compared to 2019 Actual Revenue).** I have included the analysis that led to this revision for your review.

The ultimate economic toll of the COVID-19 pandemic will depend on many variables, including the success of public health efforts, the ability to reopen the City's economy, and stimulus responses from the federal government. Given this uncertainty, the City Auditor's Office analyzed three economic scenarios, 1) most realistic, 2) pessimistic, and 3) optimistic, and their potential associated impacts to the City's income tax collections.

The scenarios considered are designed to estimate the effects of the COVID-19 pandemic on the local economy. In all three scenarios, the economic effects persist throughout fiscal year 2020 as unemployment and local businesses slowly recover to pre-pandemic levels. Going forward, the City Auditor's Office will continue to closely monitor public health events (e.g., resurgence) and employment and will update the projections in this analysis as needed in the coming months.

Please contact me with any follow-up questions. We will continue to provide information as it is available.



Megan N. Kilgore
City Auditor



ADJUSTMENT TO THE 2020 OFFICIAL REVENUE ESTIMATE

Dated June 9, 2020

BACKGROUND

Since the World Health Organization’s identification of COVID-19 as a global health emergency and the subsequent implementation of national, state, and local emergency declarations, significant disruptions in normal economic activity have occurred at all levels. On March 9, 2020, the Governor of the State of Ohio (the “Governor”) declared a State of Emergency, coinciding with orders from the Ohio Department of Health for residents to self-isolate and non-essential businesses to close. On April 6, 2020, Governor DeWine announced that the State will begin a phased-in reopening of these businesses starting May 1, 2020.

At the municipal level, the Mayor of the City of Columbus (the “Mayor”) issued a Declaration of a Mayor’s Emergency on March 18, 2020, which affirmed the orders of the State and required non-essential City employees to work from home. Although the City does not yet have sufficient current revenue data or complete expenditure information to accurately quantify the direct impact of the COVID-19 pandemic on the City’s finances, it expects that revenues from income taxes and other economically sensitive tax revenues will be materially reduced. Because of time lags between the taxable activity, collection, reporting, and (for certain revenues collected by the City) distribution to City accounts, reduced revenues to the City resulting from the COVID-19 pandemic are only beginning to be reflected in the data available to the City.

THE CITY’S FISCAL CONDITION PRIOR TO COVID-19 PANDEMIC

In order to understand the financial condition of the City, it is important to acknowledge the composition of the City’s revenue sources. The City Auditor published her Original Revenue Estimate for 2020 on October 17, 2019. At such time, the City Auditor anticipated that the City would receive the following revenues in 2020:

2020 Original Revenue Estimate (dated 10/17/2019)		
Revenue Source	Projected Amounts	Projected Percent to Total
Income taxes	\$ 719,742,000	78%
Charges for services	63,234,000	7%
Property taxes	50,712,000	5%
Shared revenue	30,631,000	3%
Fines and forfeits	19,564,000	2%
Investment earnings	17,900,000	2%
Licenses and permits fees	12,431,000	1%
Miscellaneous revenue	5,519,000	1%
Transfers in	4,000,000	1%
Total Revenue	\$ 923,733,000	100%

ESTIMATING THE IMPACT OF THE COVID-19 PANDEMIC ON CITY REVENUES

The City’s revenue estimate revisions related to the COVID-19 pandemic rely on certain assumptions, including: (1) the pandemic’s duration, (2) executive orders from the Governor, (3) executive orders from the Mayor, (4) a resurgence in COVID-19 cases that could alter economic activities, and (5) unforeseen directives

that could alter both anticipated revenues and the timing of such revenues (e.g., extensions of tax payment dates).

Income Tax Revenues. The City's income tax revenues are comprised of three sources: withholding (83%), business net profits (12%), and individual filers (5%). Given the City's reliance on income tax as a material source of revenue, much of the economic modeling during the COVID-19 pandemic has been focused on income tax. The City anticipates historically low performance in income tax for fiscal year 2020 due to the severe and unprecedented number of job losses as a result of the COVID-19 pandemic.

It is important to note that portions of the City's tax revenues are lagging. The City is just beginning to see the revenue impacts from withholdings (e.g., income tax collected from wages) and it will take time to fully realize impacts from business net profits and individual taxes. Additionally, the postponement of income tax filing and payment deadlines will result in payment delays to the City. Annual return payments normally required to be made by April 15 are now due on or before July 15 and quarterly estimated income tax payments due on April 15 and June 15 are now extended to the July 15 due date.

To best inform and revise the City's revenue projections, the City has undertaken two comprehensive initiatives to bolster economic modeling related to income tax:

- 1) *"Health Check-Ups" of Top 50 Largest Withholding Employers.* On a weekly basis, the City Auditor's Office is participating in telephone calls or electronic meetings with the City's largest withholding taxpayers. In sum, these taxpayers represent a sizeable portion of the City's income tax collections and serve as a good barometer to the local economy. As the City learns of any employment changes, adjustments are made in the revenue models. Using a combination of soft data (conversations with a large employer's leadership) and hard data (actual staffing cuts at the large employer), a vulnerability score is applied to each company. These vulnerability scores allow the City to keep a close watch on the duration of any furloughs or layoffs and ascertain trends related to grouped industries.

To-date, our largest employers have largely remained at work. They may be working differently (i.e., at home), but they are still producing and paying salaries. Only a small number of the City's largest withholding taxpayers have experienced sizeable furloughs or layoffs.

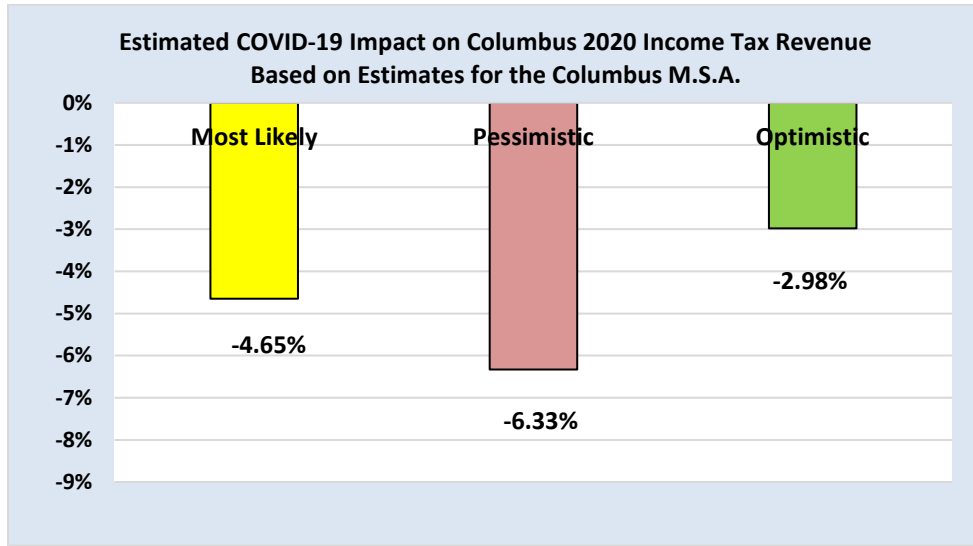
- 2) *Economic modeling using Bureau of Labor Statistics data.* While the Top 50 Largest Withholding Employers consist of industries largely still working due to essential (healthcare) or work-from-home capabilities, the City is monitoring job losses in the City's high-risk categories (e.g., restaurants, retail, hotels, tourism, and small business service providers). In aggregate, these labor changes may result in material revenue loss to the City.

The City has created economic models forecasting “most realistic,” “pessimistic,” and “optimistic” scenarios. These scenarios will be updated routinely as new data is provided and the City is better able to ascertain the impacts of the State’s reopening strategies.

Based on assumptions noted above, information gathered during “Health Check-ups,” and actual job loss data, the following reductions in jobs by industry are estimated for 2020:

Projected Job Loss Percentage by Industry			
Industry Title	Most Realistic	Pessimistic	Optimistic
Accommodation and Food Services	-13.10%	-15.10%	-11.10%
Administrative and Support and Waste Management and Remediation Services	-6.30%	-8.30%	-4.30%
Agriculture, Forestry, Fishing and Hunting	-2.00%	-4.00%	0.00%
Arts, Entertainment, and Recreation	-13.10%	-15.10%	-11.10%
Construction	-6.40%	-8.40%	-4.40%
Educational Services	-2.70%	-4.70%	-0.70%
Finance and Insurance	-3.00%	-5.00%	-1.00%
Government	-4.40%	-6.40%	-2.40%
Health Care and Social Assistance	-2.70%	-4.70%	-0.70%
Information	-4.30%	-6.30%	-2.30%
Management of Companies and Enterprises	-6.30%	-8.30%	-4.30%
Manufacturing	-7.50%	-9.50%	-5.50%
Mining, Quarrying, and Oil and Gas Extraction	-2.00%	-4.00%	0.00%
Other Services (except Public Administration)	-5.80%	-7.80%	-3.80%
Professional, Scientific, and Technical Services	-6.30%	-8.30%	-4.30%
Real Estate and Rental and Leasing	-3.00%	-5.00%	-1.00%
Retail Trade	-12.10%	-14.10%	-10.10%
Transportation and Warehousing	-6.80%	-8.80%	-4.80%
Unclassified	-2.00%	-4.00%	0.00%
Utilities	-11.10%	-13.10%	-9.10%
Wholesale Trade	-3.70%	-5.70%	-1.70%

Applying the job loss percentages to the projected withholding income tax revenue by industry results in an estimated reduction in 2020 income tax revenues from withholdings of 4.65%, 6.33%, and 2.98% for “most realistic,” “pessimistic,” and “optimistic” scenarios, respectively, as compared to 2019.



In order to estimate potential declines in revenue as a result of the COVID-19 pandemic, a detailed review of year to date actual revenue through May 31, 2020, as compared to the same period in 2019, is provided below:

May Year To Date Revenue Comparison				
Revenue Source	YTD 5/31/2020	YTD 5/31/2019	\$ Variance	% Variance
Income tax	\$ 304,973,873	\$ 314,058,721	\$ (9,084,848)	-2.89%
Charges for services	26,953,629	28,112,076	(1,158,447)	-4.12%
Property tax	26,404,349	26,564,761	(160,412)	-.60%
Shared revenue	10,920,864	12,301,630	(1,380,766)	-11.22%
Fines and forfeits	5,034,757	6,941,951	(1,907,194)	-27.47%
Investment earnings	10,137,867	9,043,590	1,094,277	12.10%
License and permit fees	3,870,221	4,677,698	(807,477)	-17.26%
Miscellaneous Revenue	17,336,051	2,892,329	14,443,722	499.38%
Transfers in	16,792	13,304,173	(13,287,381)	-99.87%
Total Revenue	\$405,648,403	\$417,896,929	\$(12,248,526)	-2.93%

ADJUSTMENT TO THE 2020 OFFICIAL REVENUE ESTIMATE

Based on actual revenues through May 31, 2020 and the job loss analyses noted above, the City Auditor is reducing the 2020 Official Revenue Estimate by a total of **\$41.5 million**.

The details of this adjustment are as follows:

Official Revenue Estimate Adjustment						
Revenue Source	2019 Actual	2020 Original Estimate	Adjustment to Original Estimate	2020 Revised Revenue Estimate	2020 Revised Estimate vs 2019 Actual	2020 Revised Est. vs 2020 Original Est.
Income tax	\$706,085,907	\$ 719,742,000	\$ (46,500,000)	\$673,242,000	-4.65%	-6.46%
Charges for services	65,365,937	63,234,000	(2,300,000)	60,934,000	-6.78%	-3.64%
Property tax	50,390,381	50,712,000	(500,000)	50,212,000	-.35%	-.99%
Shared revenue	29,628,116	30,631,000	(2,000,000)	28,631,000	-3.37%	-6.53%
Fines and forfeits	18,921,231	19,564,000	(4,000,000)	15,564,000	-17.74%	-20.45%
Investment earnings	21,145,912	17,900,000	-	17,900,000	-15.35%	0%
License and permit fees	12,106,082	12,431,000	(500,000)	11,931,000	-1.45%	-4.02%
Miscellaneous Revenue	5,965,507	5,519,000	14,300,000	19,819,000	232.22%	259.10%
Transfers in	16,324,030	4,000,000	-	4,000,000	-75.50%	0%
Total Revenue	\$925,933,103	\$923,733,000	\$(41,500,000)	\$882,233,000	-4.72%	-4.49%

Income Tax

Based on the information we know today and using the “most realistic” scenario for estimating job loss in the City for 2020, income tax revenue for the year is expected to be 4.65% lower than 2019 actuals resulting in a \$46.5 million reduction in the income tax revenue estimate. Income tax revenue makes up 78% of total general fund revenues; as such, the City Auditor will continue to monitor the activities of the City’s largest taxpayers and job loss numbers in the City to evaluate the need for future adjustments to the revenue estimate for income taxes.

Charges for Services

Approximately 50% of revenue included in charges for services is generated from Pro Rata, or administrative charges to non-general operating fund divisions. Pro Rata represents certain operating costs borne by the general operating fund and then partially allocated to other funds of the City. City legislation calls for an assessment rate of 4.5% of revenues of the funds assessed, resulting in revenue to the general operating fund estimated at \$31.51 million for 2020. Revenue in the non-general operating funds declined in the past month. Anticipating those revenues to remain at a lower level for the remainder of the year results in a decrease in Pro Rata; therefore, the estimated revenue from charges for services has been reduced by \$2.3 million.

Property Tax

In an effort to assist residents through the challenges of the COVID-19 pandemic, the Franklin County Treasurer's and Auditor's Offices have moved the due date for the 2nd half real estate property tax collection 45 days, from June 22, 2020 to August 5, 2020. Due to the high levels of unemployment in the City, it is reasonable to expect an increase in property tax delinquencies for the 2nd half collections. The revenue estimate for property tax revenue has been reduced by \$500 thousand.

Shared Revenue

Shared revenues include portions of the various State of Ohio taxes which are shared with local governments within the State. It is estimated that these shared taxes will provide \$23.81 million. The State of Ohio has not indicated that local government funds will be reduced for 2020. The City also receives Casino taxes as an allocation of county share portion and as a host city portion. The 2020 estimate for Casino taxes reflected in the general fund was \$6.82 million. Due to the Governor's State of Emergency, the casinos were closed from March 13th through May 22nd. Casinos opened in late May with limits on the number of people allowed inside at one time. The loss in Casino tax will likely not be recovered in 2020; therefore, the revenue estimate for shared revenue has been reduced by \$2 million.

Fines and Forfeits

Fines, forfeitures, court costs, etc., resulting from operations of the Franklin County Municipal Court were estimated to produce revenue of approximately \$13.2 million in 2020, while the City's Parking Violations Bureau was expected to collect \$6.4 million in parking ticket fines. The operations of the Franklin County Municipal Court have been closed and/or significantly altered during the Governor's State of Emergency. As residents complied with "Stay at Home" orders, parking tickets issued have dramatically declined. Revenue from court operations and parking fines were down year to date through May by \$1.2 million and \$700 thousand, respectively. While court operations have commenced after closing for several weeks and residents have increased their mobility, it is unlikely that lost revenue will be recovered in 2020. It is anticipated that continued concerns over the spread of COVID-19 will result in additional loss of revenue in this category. The revenue estimate has been reduced by \$4 million for fines and forfeits.

License and Permits

Year to date revenue from licenses and permits was down \$807 thousand through May 31, 2020 as compared to the same period in 2019. The decline in collection of license and permit fees is primarily due to businesses and City offices being closed due to the Governor's State of Emergency. Since licenses and permits are still required, it is anticipated that the majority of this revenue will be recovered when the State of Emergency is lifted. The revenue estimate for license and permit fees has been reduced by \$500 thousand to account for the potential loss of revenue related to businesses not reopening in 2020.

Miscellaneous Revenue

Year to date miscellaneous revenue through May 31, 2020 is \$14.3 million more than the amount collected for the same period in 2019 due primarily to two special items: 1) a refund of a 2019 expenditure of \$1.4 million and 2) a rebate of 2018 Bureau of Workers' Compensation (BWC) premium of \$12.9 million. Based on the actual miscellaneous revenue received, the revenue estimate in this line item has been increased by \$14.3 million.

CONCLUSION

Due to time lags between the taxable activity, collection, reporting, and (for certain revenues collected by the City) distribution to City accounts, reduced revenues to the City resulting from the COVID-19 pandemic are only beginning to be reflected in the data available to the City.

The adjustments to the revenue estimate are necessary for the City to plan for addressing shortfalls we will see in 2020 as a result of the COVID-19 global health emergency. As the State and the City continue to reopen after the Governor's State of Emergency, there will certainly be additional challenges that the City, its businesses, and its residents will need to address. Those challenges may impact City revenues. We will continue to monitor employment and other changes that may cause additional adjustments to this revenue estimate contained herein.