CITY OF SAN ANTONIO
OFFICE OF THE CITY MANAGER

TO: Mayor & City Council

FROM: Erik J. Walsh, City Manager

COPY: Executive Leadership Team; file

SUBJECT: **REVIEW OF VIA FINANCIAL FORECAST**

DATE: June 22, 2020

Information has been presented and reported by VIA on the projected impact of COVID-19 on VIA's financial forecast and operations. The projection concluded that VIA would experience an unrestricted cash deficit of $126.2 million over five years, and after the application of $92.3 million in CARES Act funding, that service provided by VIA would need to be reduced in the near term if another funding alternative could not be secured. Due to this projected deficit, VIA has been discussing pursuing the 1/8 cent sales tax currently dedicated to the Edwards Aquifer and Linear Creeks Program approved by voters in 2015. This 1/8 cent sales tax expires when the dollar amount identified in the voter proposition is reached which is expected to occur next calendar year.

At my direction, I requested that Ben Gorzell, the City's Chief Financial Officer participate on my behalf in a WebEx briefing provided by VIA on Thursday, June 18th to discuss the projected shortfall and reductions in their services. Additionally, I requested that he quickly review and provide his assessment of VIA's five-year financial forecast and other financial information to include an updated five-year forecast provided by VIA last Thursday evening. That review has been completed.

Financial forecasts serve as a critical guide for financial management and planning, however are not intended to be an exact prediction of what will occur. Rather, forecasts are an important financial management tool that assist organizations to adjust as economic conditions change. These conclusions are based upon economic conditions and financial information available as of the date of this memo. Following are the conclusions and observations based upon Ben's review of the financial information provided, other relevant documents, and discussions with VIA representatives.

- **VIA does not have a projected short-term unrestricted cash deficit.** Additionally, after an adjustment to include the City's current contribution of $10 million annually (included in the City's five-year financial forecast) for increased frequency on eighteen VIA routes, VIA would have a projected modest $10.9 million deficit in FY 2023 increasing to a deficit of $59.4

million in FY 2025. While this forecast is projecting deficits in FY 2023 to FY 2025, these deficits are manageable assuming the necessary management of expenditures, maintaining flexibility and any impact of sales tax recovery during the five-year term. As the economy recovers, the impact on sales tax revenue is not a methodical year over year change. For example, during the last great recession the City's General Fund 1% sales tax fell 4.5% in FY 2009 from the prior year and then only increased by 0.7% in FY 2010. That was followed by increases of 6.1% and 9.7% in the following two fiscal years. For your reference, attached is the historical year over year percentage change in the City's General Fund sales tax revenue from FY 1990. Highlighted in yellow are the fiscal years where historical growth was less than the 3.5% growth rate assumed in VIA's five year forecast from last September which is now being used as a baseline to project cumulative revenue losses over the next five years.

- **The FY 2020 sales tax projection utilized in the analysis that yielded the $126.2 million unrestricted cash deficit was a projection from earlier this year.** Updated projections were provided to VIA from their economic consultant which increased the sales tax estimate from $152.6 million to $190.0 million for FY 2020. For comparison purposes, the actual sales tax received in FY 2019 was $194.7 million. This represents a $4.7 million decrease from last year.

- **The updated VIA forecast includes the cost for increased service frequency on eighteen VIA routes which is being funded with a contribution from the City of $10 million annually. However, the VIA forecast excluded the City's contribution.** This contribution is included in the City's five year forecast and VIA was informed that they should assume that contribution in their forecast. This change improved the forecast by $52 million over the next five years.

- **These change results in the utilization of less CARES Act funds in FY 2020 allowing those funds to be used in subsequent years.** This additional flexibility to use the CARES Act funds should aid in smoothing the revenue projections in the near term. I am not aware of the specific details of how VIA will program those dollars going forward.

- **While the updated forecast includes sales tax projections reflective of the current economic environment, it includes operational expense assumptions over the next five years more reflective of a growing economy.** These projected expenses were compared to those included in VIA's five year forecast from September 2019. While operating expenses in the earlier years of the updated forecast are lower, operating expenses by FY 2023 in the updated forecast are approximately the same as those in its September 2019 five-year forecast. Conversely, sales taxes are assumed to not rebound with strong growth during any year of the forecast. Alignment of revenue and expense assumptions based upon the economic outlook is important as well as timely updates to forecasts to facilitate prudent financial management. My assumption is that VIA would manage their budget and services much like other public entities are having to do in these times, closely monitor economic and financial conditions as they evolve, and adjust assumptions accordingly.

I spoke to Jeff Arndt on Friday evening about our initial analysis and confirmed that our five-year forecast assumed the continuation of the $10 million from the City to maintain the increased route frequencies. My assumption as I developed the financial forecast and trial budget was that the service would continue. Jeff confirmed that they would make that change in their financial projections and had found $67 million in other reductions to offset any projected deficits for the rest of the five-year period. Based on this discussion, I would conclude that the drastic service reductions presented to Council Offices on Thursday will not have to occur.

Upon review, I recommend to the Mayor & Council that the City amend the interlocal agreement with VIA to provide flexibility for the $10 million annual contribution as it relates to the specified service levels along the 18 routes in FY 2021. This may provide VIA with the needed latitude during this recovery phase. Further, my recommendation would also include a periodic reporting from VIA to the City and City Council on recovery efforts and how VIA is meeting the community's service demands.

Finally, over the weekend, I was told that the City had asked VIA to withhold pay adjustments for its employees or future pay increases. That is not correct. Any decisions about reduced expenditures or managing their budget are the responsibility of VIA.

Should you have any questions, please feel free to contact me or Ben.

City of San Antonio
General Fund Sales Tax Revenues
Actual % Change from Prior Year

Sales Tax	
Fiscal Year	Actual % Change
1990	3.4%
1991	7.2%
1992	4.9%
1993	10.1%
1994	12.2%
1995	5.4%
1996	5.9%
1997	6.8%
1998	8.1%
1999	6.3%
2000	5.8%
2001	2.2%
2002	2.4%
2003	-0.8%
2004	6.9%
2005	9.6%
2006	9.2%
2007	6.7%
2008	3.5%
2009	-4.5%
2010	0.7%
2011	6.1%
2012	9.7%
2013	5.2%
2014	7.3%
2015	4.5%
2016	2.6%
2017	2.9%
2018	5.7%
2019	5.1%