

TO: Athens-Clarke County Mayor & Commission
FROM: Loran Posey, City Manager
SUBJECT: Sales Tax Revenue Shortfall Recommendations
DATE: April 28, 2020

MEMORANDUM

EXECUTIVE SUMMARY

The economic impact of the COVID-19 pandemic response will cause shortfalls in sales tax revenues. Our General Fund, Special Local Option Sales Tax (SPLOST) and Transportation SPLOST (TSPLOST) programs will be negatively affected. It is recommended that the Athens-Clarke County Unified Government (ACCUG) use reserve funds to account for the projected shortfall to its General Fund. Regarding TSPLOST, a handful of projects should be prioritized above the others until the situation can be reassessed in the new fiscal year. For SPLOST, the issuance of the General Obligation (GO) bond should be delayed until the actual shortfalls are known.

BACKGROUND

Economic Effects of COVID-19 Response

ACCUG passed a voluntary shelter-in-place policy on March 16 (*An Ordinance for the Declaration of a Local State of Emergency Related to COVID-19, 2020*). A mandatory shelter-in-place policy was passed on March 20 and took effect the following day (*An Ordinance for the Second Declaration of a Local State Emergency Related to COVID-19, 2020*). On April 2, a

statewide shelter-in-place order was issued by the governor (“COVID-19: Statewide Shelter in Place Order”, 2020). Because of the orders, many nonessential businesses closed. Other businesses adapted their models to the new circumstances. The result is significantly altered consumer behavior as ACCUG residents stay at home and spend less. The governor recently allowed most businesses to reopen (Judd & Bluestein, 2020). But it is expected that consumers will spend less than they normally would as incomes have decreased and citizens continue efforts to socially distance. Some businesses choose to remain closed. These circumstances will lead to a severely reduced amount of sales tax revenue collected by ACCUG throughout this period, affecting all budgets and programs that rely on sales taxes. It is unclear how long the economic effects will continue.

Dependence on Sales Tax Revenue

There will be a projected revenue shortfall that will impact the General Fund budget and more significantly affect projects that depend solely on sales tax revenue. The base sales tax for the state of Georgia is four percent (*FY20 Budget in Brief*, 2019). In Athens-Clarke County (ACC), the Local Option Sales Tax (LOST) adds another penny in sales tax for each dollar spent. The General Fund relies on revenue from LOST for an outlay that subsidizes property tax revenue (*Athens-Clarke County By the Numbers*, 2017). An additional percent in sales tax is added due to SPLOST. TSPLOST adds another percent in sales tax. Finally, with the Education SPLOST (ESPLOST), the ACC sales tax is 8 percent. For ACCUG purposes, ESPLOST will not be discussed since that revenue goes to the Clarke County School District. ACCUG relies heavily on SPLOST and TSPLOST to fund critical projects.

Budget Breakdown

In fiscal year 2020, sales tax revenue made up 8.6 percent of the overall ACCUG budget, including all funds (*FY20 Budget in Brief*, 2019). The largest fund is the General Fund, which accounts for more than half of revenues and expenditures for ACCUG. It is supported primarily by property taxes. Sales tax revenues, however, make up 17.3 percent of the General Fund budget (*FY20 Budget in Brief*, 2019). This revenue comes from LOST. Over the last five years, there has been a consistent annual increase of 2 percent in the sales tax revenue for the General Fund (*FY20 Budget in Brief*, 2019). Given the increasing role of sales tax revenue in the General Fund, any shortfall will need to be accounted for.

The budgets for SPLOST and TSPLOST are not included in the adoption of the annual budget as they are established independently through voter approval (*FY20 Budget in Brief*, 2019). In 2010, ACC voters approved SPLOST 2011. The collection period for SPLOST 2011 began in April 2011 ended at the end of March 2020 (“SPLOST 2011 General Information & Timeline”). SPLOST 2011 funds 35 projects with a \$195 million budget. SPLOST 2020, which was approved by voters in 2019, started collection on March 31 (Lasseter, 2019). While the economic impact of the last several weeks affected the final weeks of the 9-year SPLOST 2011 collection period, its impact is expected to be minimal. SPLOST 2020 will be more severely impacted as its collection period just began. SPLOST 2020 funds 37 projects with a projected budget of over \$314 million, which will surely be impacted negatively by the ongoing pandemic (“SPLOST 2020 General Information & Timeline”). The current TSPLOST 2018 was approved in 2017 and collections began in 2018. That tax funds 19 transportation-related projects over 5 years with a projected budget of \$109.5 million (*FY20 Budget in Brief*, 2019).

ANALYSIS

Projected Shortfalls

The Georgia Department of Labor has not released sales tax revenue statistics for March 2020 yet. However, we can use historical data to inform our projections now. During the Great Recession, states saw sales tax revenues decline by about 9 percent from the second quarter of 2008 to the second quarter of 2009 (Belz & Sheiner, 2020). This situation differs in that the onset of the economic decline was more sudden and the decline may be compressed into a smaller period of time. Because of this, it is recommended that ACCUG use a higher projected shortfall. It is reasonable to expect an even sharper decline in sales tax revenue as long as social distancing and shelter-in-place policies are in effect. The months of March through June will likely be affected. Those four months represent a third of fiscal year 2020. Assuming consumer spending has been cut roughly in half, we project a sales tax revenue shortfall of 15 percent for FY20. The FY20 General Fund's budget totals \$140.2 million and 17.3 percent of that total was supposed to be funded by sales tax revenue: \$24.2 million (*FY20 Budget in Brief*, 2019). Assuming a 15 percent decrease in sales tax revenue, ACCUG needs to account for \$3,635,013 for the General Fund for this fiscal year.

SPLOST 2011's collection period ended on March 30, so only the last two weeks of a nine-year period were affected. According to the most recent expense report from ACCUG, SPLOST 2011 had a revenue variance of \$6.1 million so we do not anticipate any SPLOST 2011 shortfalls due to the excess proceeds (*SPLOST 2011 Expenditure Summary*, 2020).

TSPLOST 2018 collections began on April 1, 2018 and will end on March 30, 2023 ("TSPLOST 2018 General Information & Timeline"). Because the five-year TSPLOST collection period is shorter than SPLOST collection periods, it is expected that any economic recession would have a more significant effect on revenues because the period of time would

represent a larger proportion of the overall collection period. Fortunately, the most recent TSPLOST expenditure report recorded a \$4.3 million revenue variance so collections are ahead of projections (“TSPLOST 2018 Expenditure Summary”, 2020). However, it is hard to tell how long current circumstances will last so there is likely to be a significant impact over the next year on TSPLOST 2018 collections. Assuming a sales tax shortfall of 9 percent from March 2020 to March 2021, similar to what occurred during the Great Recession, TSPLOST collections would lose out on \$1.97 million in revenue. That is based on a total budget of \$109.5 million divided by five years, and that \$21.9 million amount being multiplied by 9 percent. Due to this potential shortfall, ACCUG should consider what options exist to mitigate the effects on planned projects.

SPLOST 2020 collection began at the beginning of April. To date, ACCUG has not yet issued a GO bond to begin SPLOST 2020 projects. Revenues during the first year will certainly be lower than initially projected so ACCUG should consider its options as it begins implementation of SPLOST 2020.

RECOMMENDATIONS

General Fund

One of ACCUG’s fiscal policies is to maintain a reserve fund equal to at least one month, or 8.3 percent, of the total General Fund (*FY19 Comprehensive Annual Financial Report*, 2019). One aim of this policy is to “offset significant downturns”. According to the FY19 year-end comprehensive financial report, the General Fund balance had \$22.4 million on hand available for “emergencies, maintenance of facilities and infrastructure, and other governmental activities” (p. 3). It is recommended that ACCUG cover the \$3.6 million shortfall in LOST revenue with some of that available reserve money.

SPLOST 2011

As mentioned above in the analysis, no SPLOST 2011 projects should be underfunded. There is no recommendation for SPLOST 2011 changes.

TSPLOST 2018

TSPLOST 2018 revenues will be affected negatively, losing an estimated \$1.97 million in revenue between March 2020 and March 2021. While collections to date have exceeded projections, now is the time to begin looking at how we will prioritize projects if shortfalls cause projects to be underfunded in the long run. Project #10, the Whitehall Road at South Milledge roundabout, has been completed. But eighteen other projects remain. Two projects are inactive: #3, the Bus Stop & Transfer Facilities Improvement Project, and #12 the Pedestrian Improvements Program (*TSPLOST 2018 Monthly Project Update, 2020*).

Of sixteen active projects, it is important to prioritize those for which we have made significant progress on. Also, we should consider whether a project has matching funds at stake and the urgency of the project. Until there is more data and clarity, we should assume all projects will be funded and completed. However, we should be strategic in our actions in this uncertain time. Given the above mentioned criteria, it is recommended that ACCUG prioritize the following projects in the immediate future.

Project #1 - Airport Capital Improvements Program (CIP) Matching Funds

This project received over \$10.7 million in matching funds from the Georgia Department of Transportation (GDOT). Ninety-eight percent of the budget for this project has been spent or encumbered (*TSPLOST 2018 Monthly Project Update, 2020*). I recommend finishing this project since it is so far along and involves matching funds.

Project #2 - Transit Vehicle Expansion & Replacement Project

This is another project that attracted grant funds from GDOT and over half of the budget has been spent or encumbered (*TSPLOST 2018 Monthly Project Update, 2020*). There is also a significant waiting period between ordering the new buses and the delivery of the buses. In order to deploy our new fleet of transit buses according to the original timeline, we need to remain committed to finishing this project. It also pushes ACCUG towards its goal of 100% clean or renewable energy by 2035 (*FY20 Budget in Brief, 2019*).

Project #4 - Transit Service Expansion Projects

This project's budget is 92 percent spent or encumbered. It is anticipated to be completed by the end of July (*TSPLOST 2018 Monthly Project Update, 2020*). Because of the great progress on this project and the way it enhances our transit system's reach into an underserved area, we should prioritize finishing this project in the near term.

Project #8 - Tallassee Road Bridge Replacement Project

This project has no grants associated with it and has only 13 percent of its budget spent or encumbered (*TSPLOST 2018 Monthly Project Update, 2020*). However, the critical nature of this infrastructure project should warrant our attention and prioritization. The next step would be to release the project for bidding after Transportation & Public Works completes its assessment of the proposal.

Until July, when we can reassess the economic circumstances, we should only commit TSPLOST 2018 funds to these four projects. I recommend we place other projects on hold until that point. If the projected loss of \$1.97 million is accurate, we will need to begin a conversation about which project or projects would be delayed until later in the collection period or potentially canceled depending on how revenues look following the COVID-19 environment.

SPLOST 2020

SPLOST 2020 revenue collections began this month and ACCUG has not yet issued the \$127 million GO bond to start projects. This works well for us as we are not locked in to a borrowing agreement yet and can exercise caution in this environment. I recommend putting the bond issuance on hold until we can reassess in the new fiscal year. Alternative options could be to proceed as normal with optimism about the total 11-year period of collections or to issue a lower GO bond than planned to avoid potentially taking out more in debt than we ultimately collect. Another bond could be issued at a later time if needed.

COUNTERARGUMENTS

Opponents of the General Fund approach may argue that we should not pull from our reserve funds and instead should find places in the budget to cut. While this is a reasonable concern, it is relatively late in the fiscal year and many funds have been spent or committed. It would also be labor intensive to contact each department, find out their available balances, determine what those balances are going to spent on and then cut certain department's budgets to account for the shortfalls. In order to expedite finding a solution during this fast-moving time, we should lean on our reserve funds. ACCUG fiscal policy states that downturns like the current one are a reason we should use these funds.

Some may recommend moving forward on TSPLOST projects as usual, but that approach runs the risk of making progress on most or all projects with the possibility of a shortfall looming that would cause some projects to be underfunded in a matter of years. By holding on all but the most urgent or nearly completed projects, we buy some time to collect data and reevaluate when we are in a more informed position. It is possible that one or two projects ultimately end up

underfunded and those decisions may need to be made down the road. It is best to avoid making progress and spending money on projects that may end up being canceled.

Critics may argue we should issue the GO bond for SPLOST 2020 projects according to the original timeline. This approach would commit us to an amount of debt based on the original SPLOST 2020 budget, which could be underfunded depending on how the situation develops. It is best to gather more information and evaluate our approach in July. Collections just began and we have time to play it smart. Failing to do so could mean we have debt that we are unable to pay for using SPLOST 2020 revenues when the bond matures.

CONCLUSION

To account for the projected loss of sales tax revenue to the General Fund, ACCUG should cover the shortfall using reserve funds. This will allow the FY20 budget to function as intended and follows the rationale of why ACCUG maintains reserve funds. TSPLOST projects should be prioritized to focus on those that have already expended or encumbered a large portion of their budgets in order to complete them and not risk losing the investment so far. Special attention should also be given to those projects that drew matching funds from the state government and those that involve critical public safety infrastructure, like bridges. SPLOST 2020 recently began collections and ACCUG should delay the issuance of the GO bond intended to fund the start of those projects. TSPLOST and SPLOST steps forward should be reassessed in July when more is known about how long the economic recession will last and what the actual shortfalls are. By taking this fiscally conservative approach, we can gather more information and make informed decisions about which TSPLOST projects may need to be delayed in the long run. We also can avoid taking on a debt amount for SPLOST 2020 that exceeds what we end up collecting. This is

a moment in our history that requires responsiveness and flexibility. However, it also mandates a degree of waiting to see how the situation develops.

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