



MESSAGE FROM THE MAYOR

April 9, 2020

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To the Citizens and Businesses of Solvang:

As I mentioned in my last Message from the Mayor, in this message, I will be stressing the importance of the City of Solvang's economic health, tourism, financial reserves and how they impact the community's quality of life, and your wallet.

From a bird's-eye view, Solvang – which I consider to be the heart of our general area, described as the Santa Ynez Valley – is a charmed village in which we choose to live, for all of the inherent quality-of-life attributes that we sometimes take for granted. A good portion of these enhancements are largely afforded by our tourism economy, which is our City's economic engine. That engine brings a host of great experiences to the table which our nearly-6,000 Solvang residents, approximately 20,000 in the entire Santa Ynez Valley, would not be able to sustain alone. We have our open spaces, parks, recreational opportunities, outstanding dining, shopping, heritage and culture, fire and sheriff safety, all while creating jobs in which you, your family, neighbors, or friends may be dependent.

Some other, less visible benefits that the City has been providing to the community, are items such as Stormwater Management (mandated by the State, at an average annual cost to the City of \$600,000/year) or Water & Wastewater improvements, to increase quality while reducing cost, such as the recent replacement of the water meters which had reached end-of-life and were no longer efficient for staff to manually monitor. A City may opt to charge these costs out to the community via Water/Sewer Rate increases or other vehicles such as property taxes, which ultimately increase rents charged by landlords. Here, we have been in the fortunate position to pay for these improvements using the City's General Fund in order to mitigate the need for Water/Sewer Rate increases. ***But, where do these funds come from...?***

For Solvang's tourism-based economy, the monies generated by Taxable Sales – such as Sales Tax and Hotel Stays – represent approximately \$180 Million which gets pumped into Solvang's local economy each year, therefore generating approximately \$6 Million in taxable revenue for the City. These dollars make our local economy viable, keep people employed, and generate taxes for the City which ultimately pay for a good portion of those services which we sometimes overlook or do not even realize we are receiving, such as the benefits mentioned above.

The City's General Fund revenue is also, uniquely and exceptionally dependent on tourism. A couple of examples to put this into perspective: City personnel cost (\$3 Million/year) and Sherriff's contract (\$2 Million/year) make up approximately \$5 Million/year of the City's expenses from the General Fund, while the primary non-tourism related taxes that come in to the City are Property Taxes at approximately \$1.4 Million/year – a great short-fall. ***The current events related to the COVID-19 emergency and its impacts on the City and the community, has created a cessation of tourism-related taxes which up until now, were estimated to bring in approximately \$6 Million this year.***

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More than 60% of the City's General Fund revenue is generated from retail sales tax and hotel transient occupancy tax, also known as "TOT" or "bed tax", with visitors paying 12% on top of their hotel room rate per night. ***The current cessation of our tourism-related income has an immediate and direct impact to our local economy with estimated revenue losses to the City starting at approximately \$500,000 per month***, based on roughly \$1.5 Million per year which comes from sales tax and \$4.5 Million per year from bed tax, or TOT.

There are also many other indirect impacts to revenue funds which will be seen, but are harder to calculate at this point in time, or which might affect finances differently depending on how long this event impacts our City. We will also see increases in non-budgeted expenses which we will be paying for from our reserves. All reasons why the goal of the City's actions today, are not only to maintain public health and safety but to strategically adjust in order to mitigate damages to our economy that could ultimately reduce our ability to recover – which would have far greater long-term impacts to our community and its ability to return to a healthy and sustainable condition.

All of this leads me to the condition of City prior to the current COVID-19 event, its impacts, and what the recovery process may look like for us:

During a public meeting of the City Council held last year, City staff and Council agreed that much-needed capital expenses for the City's infrastructure far exceeded our ability to pay for such out of current reserves or revenue. In a fund accounting perspective, this essentially means that the reserves the City maintains today, are either the result of deferred maintenance which needs to be addressed, or are being saved for the normal replacement of aging infrastructure (e.g., the pipes that bring you water or take your sewer away, roads, bridges, water or waste water facilities, etc.). The Council and staff has also identified preliminary Water/Sewer Rate impacts in order to fund the new, and desperately-needed, Wastewater Treatment Plant – the largest expense the City of Solvang has seen in well over 20 years, at approximately \$16 Million. The City does not have enough reserves to simply pay these large costs and therefore, has been working on various funding strategies to absorb the cost of the much-needed infrastructure replacement. Solvang already has high Water/Sewer Rates, and the council has indicated many times that they are looking for ways to mitigate the need for significant Water/Sewer Rate increases. As such, the Council and staff have been working diligently to find strategies to accomplish this, for the community which we serve.

At this point, we have no definitive end-date for the current cessation of tourism-related activities due to COVID-19 but each month that this continues, will further drain our reserves and complicate our recovery process. The recovery of our economic engine will be absolutely critical to our long-term sustainability, cost of living and quality of life. The significance of these items and how they will ultimately impact future Water/Sewer Rates, potentially now in a time when more people are struggling to pay their bills or how long recession will last after the global impacts of COVID-19. Therefore, we must be very conscious of the use of our reserves during this time, as it will impact our ability to use them for future capital projects, services to the community as described above, and could lead to the further compounded rates for all residents and businesses.

I hope that the above helps to summarize the economic impacts Solvang will face and the tax implications, as pertain to revenue in the City's General Fund – the much-discussed \$500,000+ per month revenue loss, and the increased expenses. But please note, these are just the primary impacts to the *General Fund*; the City of Solvang has two other primary funds referred to as "Enterprise Funds", which are run like separate businesses.

For our City, these two significant funds are the "Water Fund" and "Sewer Fund". In 2016, the City of Solvang did a rate study of both water and sewer which consisted of more than five years' worth of historical revenue and expenses, in order to forecast five years into the future along with needed capital improvements to determine funding requirements. It appeared during that time that commercial-related revenue accounted for approximately 35% of the revenue to these funds. And commercial activity of the City of Solvang is again, largely generated by tourism-related businesses. Losses of revenue in these funds would result in negligible cost-saving, meaning the residents would be stuck carrying additional overhead.

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A primary example of this would be State Water: the payment for Solvang's State Water mortgage is particularly high due to the high ratio of Solvang's State Water, for a City of its size. This payment logs in at approximately \$3 Million per year, and the payment does not decrease if we use less water or have less business activity. Therefore, the revenue generated by the tourism-related commercial activity in Solvang has helped to keep our rates down, but loss of this revenue would result in rate increases to the residents.

What it comes down to is the importance of tourism which drives our local economy and understanding that the loss of tourism will then affect City revenue, which will then potentially cause a rise in rates for residents and businesses while also decreasing services and infrastructure for the community. I hope that this message helps to explain the important role the tourism industry has played in our community, the impacts that we are seeing today, and how delicately this situation needs to be handled for the best long-term outcome in these unprecedented times.

All of this said, I would also like to introduce some of the agenda items for **our next Regular Meeting of the Solvang City Council, scheduled for Monday, April 13, 2020, at 6:30 PM**. Those agenda items are:

- COVID-19 Update – Issues and Resident Resources
- Extended Emergency Loan Assistance Program for Solvang Small Businesses
- Economic Outlook and Economic Development Strategy
- Fiscal Strategy within Coronavirus Framework and FY 2020-21 Development
- IDK Formal Contract Scope Amendment and Solvang Business Support and Re-vitalization Strategy

We hope that you can join us (virtually) for the next [City Council](#) meeting. Instructions for participating in the meeting are located here: www.cityofsolvang.com/AgendaCenter/ViewFile/Agenda/_03302020-509. All Regular Meetings of the Solvang City Council may be viewed via live stream, on the City's YouTube channel: www.youtube.com/channel/UC15ThpbeQv6NkgYrup61SfA.

Once again, please be safe, stay healthy, and **STAY HOME**.

Solvang Mayor Ryan Toussaint