



BUSINESS OF THE CITY COUNCIL CITY OF MERCER ISLAND

AB 5683
April 21, 2020
Regular Business

AGENDA BILL INFORMATION

TITLE:	AB 5683: Follow-up 2019 Year End Financial Report and COVID-19 Impacts	<input checked="" type="checkbox"/> Discussion Only
RECOMMENDED ACTION:	Staff recommends the City Council receive the agenda bill.	<input type="checkbox"/> Action Needed:
		<input type="checkbox"/> Motion
		<input type="checkbox"/> Ordinance
		<input type="checkbox"/> Resolution

DEPARTMENT:	Finance
STAFF:	Lajuan Tuttle, Deputy Finance Director
COUNCIL LIAISON:	n/a
EXHIBITS:	1. 2019 Department Budget and Actuals by Category. 2. Articulate, confirm, and communicate a vision for effective and efficient city services. Stabilize the organization, optimize resources, and develop a long-term plan for fiscal sustainability.
CITY COUNCIL PRIORITY:	

AMOUNT OF EXPENDITURE	\$ n/a
AMOUNT BUDGETED	\$ n/a
APPROPRIATION REQUIRED	\$ n/a

SUMMARY

At the April 7, 2020 City Council Meeting, staff presented AB 5676 which included a financial review of the year ending December 31, 2019 and an introduction to the financial impacts of the COVID-19 response. The City Council raised detailed questions regarding summary financial data for the General Fund. The City Council also requested additional information on what decisions had been made to address the immediate financial impacts of the COVID-19 response.

The following report reviews 2019 General Fund expenditures specific to salary and benefit one-time expenditures and provides an update on immediate actions taken to reduce 2020 expenditures in response to COVID-19 as of mid-April 2020.

A follow-up presentation on the City's COVID-19 financial impacts is planned for the City Council meeting on May 5, 2020. The presentation will include an update on revenue forecasts including Sales Tax, REET, permit revenues, impacts to shared revenues, and interest income. Staff will also provide updates on expenditure reductions and other critical cost-saving measures.

2019 GENERAL FUND

Overall, \$32.4 million in General Fund revenues met budget estimates at the end of the fourth quarter of 2019. Total General Fund expenditures of \$31.3 million at year-end were also within budget estimates.

The General Fund's 2019 year-end fund balance is \$6.9 million. Setting aside the \$3.9 million portion tied to restricted uses, the remaining \$3.0 million available fund balance is the result of an unappropriated budget surplus over the past three fiscal years.

The Fourth Quarter Financial Status report for the General Fund included a table detailing General Fund expenditures by Department. Alternatively, the table below shows General Fund expenditures by budget category:

GENERAL FUND: Expenditures by Category As of December 31, 2019

Expenditure Category	Year to Date 12/31/2018*	2019 Original Budget	2019 Budget as Amended	Year to Date 12/31/2019	% of Budget
Salaries & Wages	\$ 16,286,401	\$ 16,835,870	\$ 16,752,875	\$ 16,851,429	100.6%
Benefits	5,962,469	6,139,917	6,136,304	6,041,314	98.5%
Supplies	782,036	813,339	877,229	722,404	82.4%
Contractual Services	2,002,286	2,571,384	2,543,909	1,818,962	71.5%
Communications	107,552		136,744	112,581	82.3%
Fleet & IT Internal Charges	1,474,107	1,674,887	1,543,496	1,543,493	100.0%
Insurance	623,968	803,959	803,959	794,201	98.8%
Utilities	846,209	1,067,442	929,947	745,525	80.2%
Other Services & Charges	415,968	474,615	472,115	447,077	94.7%
Intergovernmental Services	1,366,061	1,361,494	1,361,494	1,299,485	95.4%
Interfund Transfers	3,842,431	762,200	863,128	874,128	101.3%
Sub-Total Expenditures	\$ 33,709,489	\$ 32,505,106	\$ 32,421,200	\$31,250,599	96.4%

* The 2018 actuals include the Beautification Fund, which was combined with the General Fund in 2019.

Comprising 52% of the 2019 General Fund budget as amended, Salaries and Wages is the largest expenditure category and ended the year just over budget at 100.6%. Given the level of staff turnover and the number of position vacancies in 2019, the expectation that salaries and wages would end the year under budget seemed reasonable. The fact that actual costs came in at 100 percent of budget despite position vacancies warrants further review.

Salary costs and the impact of vacancies varied significantly by operating department, see table below. Note, the Salaries and Wages expenditure category includes gross pay, which entails overtime, vacation accrual cash-outs, pay for performance, market adjustments, and retroactive pay as appropriate.

GENERAL FUND
Salary & Wages by Department
Year Ending December 31, 2019

Department	2019 Budget	2019 Actual	Budget Impact Under/(Over)	% Δ Budget
Budgeted Salary Reserve	83,735	-	83,735	N/A
City Attorneys Office	445,758	375,952	69,806	-15.7%
City Council	19,200	19,919	(719)	3.7%
City Managers Office	660,110	664,829	(4,719)	0.7%
Community, Planning & Development	2,232,290	2,218,565	13,725	-0.6%
Finance Department	582,111	556,791	25,320	-4.3%
Fire Department	4,467,759	4,811,615	(343,857)	7.7%
Human Resources	364,739	365,863	(1,124)	0.3%
Information & Geographic Services	84,179	91,323	(7,144)	8.5%
Municipal Court	300,126	289,852	10,274	-3.4%
Non-Departmental	63,486	18,266	45,220	-71.2%
Parks & Recreation	2,702,658	2,506,673	195,985	-7.3%
Police Department	4,194,623	4,334,008	(139,385)	3.3%
Public Works	552,101	597,773	(45,672)	8.3%
Total	16,752,875	\$16,851,429	(\$98,554)	

To demonstrate the diversity of position vacancies, a detailed narrative of the departments affected by staff turnover in 2019 follows.

City Attorney's Office

The City Attorney's Office ended 2019 **under** budget by 12.1 percent, or \$97,120. Of the total budget savings \$69,806 was salary savings.

- The former City Attorney separated from the City on May 7, 2019, cashing out the equivalent of three weeks of accrued vacation hours.
- The Assistant City Attorney was assigned as Interim City Attorney, receiving the requisite pay increase.
- The position of Assistant City Attorney was left vacant for the remaining six months of the year resulting in a net salary savings of \$69,806.

City Manager's Office

The City Manager's Office ended 2019 **over** budget by 1.4 percent, or \$15,362, due to the timing of election costs and the transition in the City Manager position.

- The former City Manager separated from the City on June 7, 2019 cashing out the equivalent of six weeks of accrued vacation hours.
- The Parks & Recreation Director was appointed as Interim City Manager.
- Given the six weeks of accrued vacation cash-out, the City effectively paid the equivalent of two city manager salaries for six weeks.

Finance Department

The Finance Department ended 2019 **under** budget by 7.3 percent, or \$70,895, in the General Fund. Of the total budget savings \$25,320 was salary savings. A recap the staffing changes in the Finance Department and position reclassifications follows.

- Utility Billing Supervisor position:
 - The former Utility Billing Supervisor went on leave effective February 1, 2019 with enough accrued leave to be paid for twelve weeks.
 - The Utility Billing Supervisor then retired, separating from the City April 30, cashing out the equivalent of six weeks of accrued benefits.
 - In February 2019, the position was reclassified down to a Lead with no supervisory authority and changed from non-represented to represented under the AFSCME bargained agreement.
 - Though the impact on the General Fund was negligible, the impact of accrued leave and retirement meant the City was in effect paying the equivalent of two FTEs (Utility Billing Supervisor and the new Utility Billing Lead) for 18 weeks.
- The former Utility Customer Service Representative was promoted into the Utility Billing Lead position in February 2019.
- A new Utility Administrative Assistant/Customer Service Representative was hired in March 2019. This administrative position is primarily paid by the three utility funds, with 10 percent of the salary paid by the General Fund.
 - Any savings for the one-month vacancy was offset by the transition of the Utility Billing Lead.
- The former Deputy Finance Director retired and separated from the City on June 28, 2019 cashing out the equivalent of six weeks of accrued vacation hours. The Accounting Manager was promoted to the position of Deputy Finance Director effective July 2019.
- The former Finance Director/Assistant City Manager separated from the City on October 15, 2019 cashing out the equivalent of three weeks accrued vacation hours.
 - The newly appointed Deputy Finance Director was then appointed Interim Finance Director in October 2019. Savings of \$4,300 was recognized in the fourth quarter of 2019 as the Interim position did not receive the salary premium associated with the Assistant City Manager title.
- The Accounting Manager position was reclassified down to a Financial Analyst position and remained vacant for three months. A Parks Maintenance staff member was appointed Interim Financial Analyst in October 2019. The total savings was \$41,970.
- The former Accounts Payable Clerk retired from the City on December 31, 2019.
 - With a confirmed retirement date, the Finance department recruited for and hired a new Accounting Specialist to replace the Accounts Payable Clerk.
 - The Accounting Specialist was hired in December 2019, which resulted in a one month overlap to support training and transition.

The overall General Fund salary savings in the Finance Department is the result of the three-month vacancy of the Accounting Manager position, the reclassification of the position to an analyst, and both the Utility Administrative Assistant and the Accounting Specialist starting at lower annual salaries than those they replaced.

Fire Department

The Fire Department ended 2019 **over** budget by 3.7 percent, or \$244,255, primarily due to salary costs. The Department's 2019 salary costs, including overtime, exceeded budget by \$343,857 for the year. Fire was able

to mitigate some of the impacts of this overage by restricting spending in other areas within the Department including supplies and contract services.

With minimum staffing requirements, unanticipated vacancies have a significant impact on overtime costs. Total salary amounts also include the impacts of market adjustments as authorized by the settlement of the 2019 bargained agreement. Staffing vacancies covered by overtime include:

- A firefighter retired and separated from the City on February 25, 2019 cashing out the equivalent of three weeks of accrued vacation hours. A prospective firefighter was hired but did not successfully complete the academy. A second prospective firefighter was hired and entered the Fire academy in August 2019. The Fire Chief estimates that the overtime impact for backfilling this vacancy was equivalent to 98 shifts, or 2,352 overtime hours.
- Over the course of 2019, four firefighters were out on duty related disability for variable amounts of time. A total of 80 shifts required coverage equaling 1,920 overtime hours.
- Three firefighters qualified for FMLA leave in 2019. A total of 58 shifts required coverage equaling 1,392 overtime hours.
- One firefighter was on Military leave during 2019 for a total of 35 shifts, requiring 840 overtime hours.
- The former Fire Marshal retired on April 30, 2019 cashing out the equivalent of six weeks of accrued vacation hours. The new Fire Marshall was hired on July 22, 2019. The Fire Marshal position is covered by the Fire collective bargaining agreement and a Battalion Chief covered the duties of the Fire Marshal in the period of vacancy. Any estimated savings for the three-month vacancy was offset by overtime coverage of the Fire Marshal duties.

Parks and Recreation Department

The Parks and Recreation Department ended 2019 under budget by 6.4 percent, or \$370,075. Of the total budget savings, \$195,985 was salary savings. There was a significant amount of staff movement within the Parks and Recreation Department during 2019, the highlights listed below. The Department continues to work through staffing scenarios to optimize the mix of full-time staff and Casual Labor to meet the operational needs of both the Recreation and Parks divisions.

It is also noteworthy to mention that Parks and Recreation Department revenue exceeded budget expectations for 2019 by 8.5%, or \$181,177. When considering both revenue surpluses and expenditure savings, the Parks and Recreation Department made a significant contribution to the General Fund surplus for 2019.

- The Parks & Recreation Director was appointed Interim City Manager in June 2019.
- The Mercer Island Community and Events Center (MICEC) Manager was appointed Interim Parks & Recreation Director in June 2019 with a requisite increase in salary.
- The MICEC Operations and Program Supervisor was appointed Interim MICEC Manager in June 2019.
- The MICEC Operations and Program Supervisor position was left vacant for remainder of 2019 with budget savings estimated at \$47,700.
- The former Parks Manager separated from the City in February 2019.
- The Natural Resources Manager and Parks Operations Superintendent were appointed to interim roles as the Department worked through an organizational assessment.
- The Parks Manager position remained vacant through the end of 2019 with budget savings estimated at \$71,600.

- The former MICEC Customer Service Supervisor separated from the City in July 2019 cashing out the equivalent of three weeks accrued vacation hours. This position was permanently combined with the Facilities Coordinator in August 2019 and is now titled Customers Service Supervisor. This combination of functions allowed the Department to leave the Facilities Coordinator position vacant through the remainder of 2019 with budget savings estimated at \$34,100.

Police Department

The Police Department ended 2019 under budget by 1.0 percent, or \$73,349. Despite having an overall budget savings, total salaries and wages in the Department exceeded budget by 3.3 percent, or \$139,385.

- A Police Officer retired separating from the City on February 18, 2019 cashing out the equivalent of 10 weeks of accrued vacation and comp time. In addition, as a long-term employee of the Mercer Island Police Department, the officer was eligible for a longevity benefit of \$22,700 per the Police collective bargaining agreement.
- Two additional Police Officer vacancies throughout 2019 were filled with new officers. Due to minimum staffing requirements in the collective bargaining agreement, vacancies are covered with overtime hours. Total overtime for the Police Department exceeded budget by \$74,005.

The Dollar Impact

Within each General Fund Department there were a considerable number of staff changes in 2019. Whether looking at the detail by department or the General Fund as a whole, it is difficult to quantify in summary form.

The table below is another view of the budget impacts that contributed to the salary and wages actual costs at 100 percent of budget despite staffing vacancies.

GENERAL FUND
One-Time Payment and Overtime Impacts

	2019 Budget	2019 Actual	Budget Impact (Over Budget)	Hours
PAY FOR PERFORMANCE* & MARKET ADJUSTMENTS**				
Salary Reserve	\$ 497,873	\$ 572,411	(\$74,538)	
VACATION CASHOUTS				
Separation		93,570	(93,570)	1,476
Retirements		62,166	(62,166)	1,181
Per cashout policy	49,440	82,692	(33,252)	1,364
Sub-Total	\$ 49,440	\$ 238,428	(\$188,988)	4,021
OVERTIME:				
Fire Overtime	711,278	884,523	(173,246)	13,600
Police Overtime	344,000	418,005	(74,005)	5,685
Other General Fund Overtime	12,415	28,530	(16,115)	539
Sub-Total	\$ 1,067,693	\$ 1,331,058	(\$263,365)	19,823
Total General Fund Impact	\$ 1,615,006	\$ 2,141,897	(\$526,891)	

* Pay for Performance program eliminated for 2020 as part of deficit spending reductions adopted by Council. 2019 Budget estimate of \$414,138 across all department salary & wages budget.

** Market Adjustments in accordance with Long Term Compensation budget policy. Estimated at \$83,735 for 2019, budgeted in Non-Departmental.

The total General Fund impact, \$526,891 over budget, is included in the salary and wages category total. The budget savings created by staff vacancies absorbed this overage.

Compensated Absence Reserve

Of the total cash-outs noted in the table above, \$155,736 would have qualified as an authorized use of the Compensated Absence Reserve held in the General Fund. The Governmental Accounting Standards Board (GASB) Statement 16 provides guidance for the measurement of accrued compensated absence liabilities by state and local governmental entities. This Statement requires the compensated absences liability be measured using the pay or salary rates in effect at the balance sheet date.

The total compensated absences liability measured in accordance with GASB 16 at December 31, 2019 is \$1.38 million. The valuation represents total vacation and comp time accrual balances for each General Fund employee multiplied by their pay rate in effect at year end. The General Fund reserve for compensated absences at December 31, 2019 is \$1.05 million, or 76 percent of the total liability. -

LEOFF Plan 1 Long Term Care Reserve

The LEOFF (Law Enforcement Officers & Fire Fighters) Plan 1 requires the City to pay all of the necessary costs for medical services incurred by retired members that are not paid by insurance obtained by either the City or Medicare. An important aspect of this medical benefit is the burden of payment. None of the cost is borne

by retirement funds. Moreover, the State is not liable for any cost of this benefit. These costs are the responsibility of the individual LEOFF Plan 1 employer. Mercer Island currently has 29 LEOFF Plan 1 retirees who qualify for this benefit. The most recent actuarial valuation estimates the full liability for medical and long-term care costs at \$10.7 million.

The City recently received a reimbursement request for long term care from one of the covered LEOFF Plan 1 retirees. Due to this retiree’s specific needs, there are only six care facilities in the State that can provide the required level of care. The estimated costs for three of the facilities in Western Washington range from \$27,000 to \$31,000 **per month**. The Disability Board is responsible for reviewing and approving medical care costs for LEOFF Plan I retirees.

The City budgeted \$153,600 in 2020 for LEOFF Plan 1 disability claims. The City also maintains a LEOFF 1 Long Term Care reserve in the General fund that had a balance of \$1.64 million at the end of 2019. Use of the reserve fund may be necessary to address the claims anticipated in 2020. City Council action is required to appropriate the use of this reserve fund. The LEOFF 1 Reserve Fund balance will also need to be revisited as part of the 2021-22 budget development.

Human Resources Department One-Time Costs

The Human Resources Department is actively working to improve internal controls over the processes relating to salary and benefits administration. The correction of past errors has resulted in un-anticipated one-time costs that are noted in the table below:

Expenditure Description	2019	2020
Department of Retirement Systems Corrections	\$14,780	\$11,444
Department of Retirement Systems Late Fees & Interest	\$4,829	
Salary and ICMA Contribution Correction		\$12,830
HR Consultant, 2020 Y-T-D		\$1,425
Outside Legal Counsel, 2020 Y-T-D		\$2,645
TOTALS	\$19,609	\$28,344

Staff are closely tracking corrections made to salary and benefits administration and will report on additional impacts as the work progresses.

2020 COVID-19 RESPONSE

Initial Workforce Reduction

The City reduced its workforce in response to changing financial and operating conditions resulting from the COVID-19 pandemic. With the required suspension of all non-essential work to combat the COVID-19 pandemic and the immediate loss of revenue, positions were eliminated to mitigate the financial impact. In March and April, the City made the difficult decision to terminate the employment of 40 employees as follows:

- Parks & Recreation (General Fund)
 - 3 Parks Maintenance seasonal employees
 - 5 Community Center casual labor
 - 10 Recreation Instructor casual labor
- Youth and Family Services (YFS Fund)
 - 1 regular .65 FTE employee

- 10 Thrift Shop contract employees
- 5 Thrift Shop casual labor
- 6 Thrift Shop work study students
- 1 ROW/Stormwater seasonal employee (Stormwater Fund)
- 1 Utilities seasonal employee (Water Fund)

With these terminations, the weekly savings for the General Fund will be \$5,352, for a savings of \$198,016 for the remainder of 2020, if the positions are not restored. For the YFS Fund, \$13,455 will be saved weekly, for a savings of \$497,834 for the remainder of 2020, if the positions are not restored.

The City Manager is continuing to work through expenditure reductions to offset projected revenue shortfalls. Additional information on expenditure reductions will be shared at the May 5, 2020 City Council meeting.

Next Steps

City staff is working to further quantify impacts to City revenues resulting from COVID-19. Staff will return to City Council on May 5, 2020 with an updated financial forecast coupled with near-term, middle-term, and long-term cost saving measures.

At the May 19, 2020 City Council meeting, staff will preview core components of the 2021-2026 capital improvement program, including updated REET and Impact Fee revenue projections. Adoption of the six-year capital programs is anticipated in June 2020.

The staff team is also resuming work on developing 2021-2022 budget recommendations. Under normal circumstances, a two-year budget relies on a reasonable level of revenue predictability. The current emergency pandemic has created unpredictability. Work is underway to understand financial impacts and implement counter measures in 2020. Many of these cost saving measures will carry into the 2021-2022 budget to ensure a balanced budget adoption at year-end.

RECOMMENDATION

Staff recommends the City Council receive the agenda bill.