



BUSINESS OF THE CITY COUNCIL CITY OF MERCER ISLAND

AB 5700
June 2, 2020
Regular Business

AGENDA BILL INFORMATION

TITLE:	AB 5700: COVID-19 Response: YFS Fund 2020 Contingency Funds Request (Ord. No. 20-09)	<input type="checkbox"/> Discussion Only <input checked="" type="checkbox"/> Action Needed:
RECOMMENDED ACTION:	Review and adopt Ordinance No. 20-09 to authorize use of the unrestricted YFS Fund balance and appropriate Contingency Funds to support the Youth and Family Services Department through August 31, 2020.	<input type="checkbox"/> Motion <input checked="" type="checkbox"/> Ordinance <input type="checkbox"/> Resolution

DEPARTMENT:	Finance
STAFF:	Matthew Mornick, Interim Finance Director
COUNCIL LIAISON:	n/a
EXHIBITS:	1. Ordinance No. 20-09
CITY COUNCIL PRIORITY:	n/a

AMOUNT OF EXPENDITURE	\$ 250,000
AMOUNT BUDGETED	\$ 0
APPROPRIATION REQUIRED	\$ 250,000

SUMMARY

EXECUTIVE SUMMARY

This budget amending ordinance (Exhibit 1 – Ord. No. 20-09) authorizes use of the unappropriated remaining YFS Fund balance (\$329,425) and allocates up to \$250,000 from the Contingency Fund to sustain current Youth and Family Services (“YFS”) operations through August 31, 2020. Adopting ordinance 20-09 does not limit the City Council’s decisions regarding future Thrift Shop operations, or an alternative course of action. Authorizing use of the unappropriated Fund Balance and the Contingency Fund ensures the YFS Fund balance does not become negative.

BACKGROUND

The primary mission of the Mercer Island Thrift Shop is to raise money to support YFS Department services. In 2020, the Thrift Shop was projected to earn nearly \$2 million in gross revenues, 65 percent of the YFS Department’s resources. Other revenues to the Department include donations from the Mercer Island Youth and Family Services Foundation, federal grants, and charges for services.

The City of Mercer Island declared a state of emergency on March 5, 2020 as a result of the COVID-19 Pandemic (“Pandemic”) and the Thrift Shop closed on March 16, 2020. By the end of March, because of thin

margins within the YFS Fund, quarterly and irregular receipt of grant funds, and the immediate impact of the Thrift Shop's closure, the YFS Fund began drawing down unappropriated YFS Fund resources to cover expenses.

At the May 5, 2020 City Council meeting, staff projected a \$1.3 million revenue shortfall in the YFS Fund and indicated that an appropriation may be needed to address the projected deficit.

YFS Fund Balance Appropriation

At the beginning of the year, the YFS Fund balance was \$506,478. Of this, the City Council previously appropriated \$177,053 to restore elementary school counselors and support ongoing operations (ORD 19-09). This left a remaining unappropriated balance of \$329,425. At the end of March, and due to the closure of the Thrift Shop, the YFS Fund began drawing down the unappropriated YFS Fund balance with the Fund forecasted to go negative the end of June.

Although the unappropriated Fund balance has already been used to stabilize the YFS Fund during the Pandemic, City Council action is needed to retroactively approve this allocation of funds.

Contingency Fund Allocation

The YFS Fund is anticipated to be in deficit (negative fund balance) in June and is projected to remain in deficit unless further reductions are made, revenue streams are restored, or new resources are identified. Under State Law ([RCW 35.33.075](#), [35A.33.075](#), [35.34.120](#), and [35A.34.120](#)), cities are required to adopt and maintain a balanced budget. This entails managing the City's finances to ensure Funds within the budget remain balanced, or put differently, maintain a positive cash flow.

City Council authorization is needed to address the near-term deficit in the YFS Fund. The projected YFS Fund balance through the end of August is provided in the table below.

YFS Fund - 160 (in thousands)	Budget	Jan-20 <i>Actuals</i>	Feb-20 <i>Actuals</i>	Mar-20 <i>Actuals</i>	Apr-20 <i>Actuals</i>	May-20 <i>Estimate</i>	Jun-20 <i>Estimate</i>	Jul-20 <i>Estimate</i>	Aug-20 <i>Estimate</i>
REVENUES	3,283	190	157	183	10	14	83	9	9
EXPENDITURES	3,332	312	206	209	210	106	109	75	72
Use of Fund Balance		(123)	(49)	(26)	(200)	(92)	(27)	(66)	(63)
BEGINNING BALANCE									
Appropriated Fund Balance	177	123	49	5	0	0	0	0	0
Unappropriated Fund Balance	329	0	0	21	200	92	27	66	63
Remaining Fund Balance	\$506	\$384	\$335	\$309	\$108	\$16	\$(10)	\$(76)	\$(140)

Staff project a \$10,000 deficit at the end of June that grows to \$140,000 by the end of August. This projection is based on a "worst-case" scenario and assumes the Thrift Shop does not re-open. This projection also assumes current YFS Department staffing levels are maintained through the end of August – no further reductions and staff on 90-day standby layoffs are not recalled. This worst-case scenario was used to project the YFS Fund deficit only and does not preclude the City Council from making future decisions on Thrift Shop operations or pursuing other alternatives to support the YFS Department.

Compounding the challenge with forecasting the YFS Fund deficit is the variable manner in which other revenues are received. One of the major revenue sources for the YFS Department is two federal grants.

Historically, the City has invoiced quarterly for grant reimbursements, but is transitioning to monthly reimbursement requests to ensure more timely payment of reimbursements.

The Mercer Island Youth and Family Services Foundation is also a significant contributor to the YFS Fund, with \$360,000 in anticipated contributions for 2020. The Foundation has agreed to submit their quarterly contributions at the beginning, rather than at the end, of each respective quarter to help sustain available working capital in the YFS Fund.

The recommended budget amendment authorizes use of up to \$250,000 from the Contingency Fund to balance the YFS Fund through the end of August using the “worst-case” operating assumption described above. This appropriation covers the projected \$140,000 deficit through August, as well as providing \$110,000 in working capital, equivalent to one month of operating costs at current staffing levels. This ensures the YFS Fund does not go negative and allows City Council and staff sufficient time to further evaluate the Thrift Shop operating scenarios and other alternatives for the YFS Department.

Under this authorization, Contingency Funds are only used as needed and after all other revenues are received and expended. Staff can return to the City Council in the future with a plan to restore the Contingency Fund for resources used to support the YFS Fund during the Pandemic.

Thrift Shop Operational Considerations and Next Steps

The City Council and staff are currently evaluating several alternatives related to the Thrift Shop, which are planned for discussion at an upcoming City Council meeting. These include:

- Evaluating potential use of the Recycling Center to accept donations.
- Evaluating a potential remodel of the Thrift Shop to expand the retail floor area.

The City Council will discuss Thrift Shop operating plans in June, with direction anticipated no later than early July. The YFS Fund forecast for 2020 and beyond will be revised to reflect the operating direction.

RECOMMENDATION

1. Suspend the City Council Rules of Procedure 6.3, requiring a second reading for an ordinance.
2. Adopt Ordinance No. 20-09 amending the 2019-2020 budget to:
 - a. Appropriate \$329,425 of unrestricted YFS Fund Balance.
 - b. Authorize up to \$250,000 to be used from the Contingency Fund to sustain a positive cash balance and ensure sufficient availability of working capital in the YFS Fund through August 31, 2020.