



## BUSINESS OF THE CITY COUNCIL CITY OF MERCER ISLAND

AB 5694  
June 2, 2020  
Regular Business

### AGENDA BILL INFORMATION

<b>TITLE:</b>	AB 5694: COVID-19 Response: 2020 Budget Adjustments	<input type="checkbox"/> Discussion Only
<b>RECOMMENDED ACTION:</b>	Review and adopt Ordinance No. 20-08 amending the 2020 General Fund adopted budget to:  <ol style="list-style-type: none"><li>1. Memorialize Phase 1 and Phase 2 cost saving measures</li><li>2. Appropriate Contingency Funds to support ongoing emergency operations thru August 31, 2020</li><li>3. Authorize use of Contingency Funds to establish an Unemployment Reserve</li><li>4. Authorize use of the Compensated Absences Reserve for one-time accrued benefit cash-outs</li></ol>	<input checked="" type="checkbox"/> Action Needed: <input type="checkbox"/> Motion <input checked="" type="checkbox"/> Ordinance <input type="checkbox"/> Resolution

<b>DEPARTMENT:</b>	Finance
<b>STAFF:</b>	Matthew Mornick, Interim Finance Director
<b>COUNCIL LIAISON:</b>	n/a
<b>EXHIBITS:</b>	1. Ordinance No. 20-08
<b>COUNCIL PRIORITY:</b>	n/a

<b>AMOUNT OF EXPENDITURE</b>	\$ 796,000
<b>AMOUNT BUDGETED</b>	\$ 0
<b>CONTINGENCY FUND APPROPRIATION REQUEST</b>	\$ 796,000

### SUMMARY

#### EXECUTIVE SUMMARY

This budget amendment provides adjustments for revenue and expenditures that were not anticipated when the City Council adopted the original 2019-2020 budget (Ordinance No. 18-18). This amendment specifically memorializes the Phase 1 and Phase 2 cost saving measures totaling \$2,785,600 in General Fund reductions. Furthermore, the budget amendment appropriates \$496,000 in Contingency Funds to support ongoing emergency operations through August 31, 2020, authorizes up to \$300,000 in Contingency Funds to establish an Unemployment Reserve, and authorizes use of the Compensated Absences Reserve for one-time accrued benefit cash-outs up to \$300,000.

Budget amendments are required when expenditures of a Fund are forecasted to exceed the adopted budget, when transfers between funds are required, or when budget changes need to be memorialized, establishing a new baseline budget.

These requested actions are further detailed below.

## **BACKGROUND**

Staff presented [AB 5687](#) at the May 5, 2020 City Council meeting. The agenda bill included an updated 2020 General Fund forecast resulting from the economic contraction created by the COVID-19 Pandemic ("Pandemic"), closure of City facilities, and cost savings measures implemented in March and April.

The presentation also included estimated costs associated with the ongoing emergency response. Staff committed to returning to the City Council with a budget amendment to memorialize these changes.

Also discussed at the May 5, 2020 City Council meeting was the use of the Compensated Absences Reserve to cover accrued benefit cash-outs (per City policy or Collective Bargaining Agreements) as a result of recent employee layoffs or separations.

## **PROPOSED 2020 BUDGET ORDINANCE**

As of May 5, 2020, the projected revenue shortfall in the General Fund is \$4.7 million. A number of cost-saving measures were implemented to address the projected shortfall in March and April. Phase 1 included reductions in the Park and Recreation Department. Phase 2 included cost saving measures across the General Fund. Taken together, Phase 1 and Phase 2 generated \$2.8 million in savings due to reduced expenditures.

Ordinance 20-08 (Exhibit 1) memorializes these cost saving measures by incorporating these budget adjustments into the 2020 Adopted budget, in effect reducing the budget and establishing a new baseline.

### Budget Adjustments

As part of the Phase 1 COVID-19 cost saving measures, casual, contract, and seasonal labor employees in the Parks and Recreation Department were laid off. In addition, a hiring freeze was implemented and included four vacant positions in the Parks and Recreation Department and one vacant position in the Community Planning and Development Department. The Phase 1 cost saving measures resulted in \$1,150,000 in savings in the General Fund.

As part of the Phase 2 COVID-19 cost saving measures, 11 full-time equivalent positions were laid off in the Parks and Recreation Department and two regular full-time employees were laid off in the Facilities Division. The operating budget was also scaled down in the Parks and Recreation Department, the Public Works Department (General Fund only), and the Facilities Division to reflect the ongoing closure of City buildings and the cancelation of programs. Resources for staff travel and training were also significantly reduced across the General Fund. The Phase 2 cost saving measures resulted in \$1,757,000 in savings in the General Fund.

With these workforce reductions, the park maintenance function and the parks capital planning function were intended to be combined with and managed by the Public Works Department. Since the May 5, 2020 presentation to the City Council, two senior-level managers in the Public Works Department announced they are separating from the City (a retirement and a resignation). With this unexpected staffing change, the Public Works Department is unable to sustain the additional parks management duties. As a result, the City will

retain the Parks Operations Manager position and the Natural Resource Specialist position. Both positions were previously included on the list of layoffs and reflected in the Phase 2 Parks and Recreation Department projected savings. The budget amendment estimate has been reduced by \$121,400 to reflect the retention of these two Parks and Recreation Department positions.

A summary of the Phase 1 and Phase 2 reductions is provided in the table below.

<b>General Fund Budget Amendments</b>	
Phase 1 Cost Saving Measures	(1,150,000)
Phase 2 Cost Saving Measures	(1,757,000)
Staffing Adjustment - Park Maintenance/Capital	121,400
<b>Total Budget Reduction</b>	<b>\$ (2,785,600)</b>

## **EMERGENCY OPERATIONS**

### Background

During an emergency, the City prioritizes essential public service delivery and the provision of critical emergency response services to the Mercer Island community. The City works in coordination with King County and the State of Washington as part of a comprehensive emergency response network.

On March 5, 2020, the City activated the Emergency Operations Center (EOC) to Level Three status in response to the Pandemic. Level Three is the lowest level of activation in which a smaller group of City staff lead the response. By the end of March, the activation was elevated to Level One status – the highest-level activation within the emergency command system. Some City staff transitioned to working in EOC roles full-time. Other staff split time between the EOC and their other essential duties. During the Level One response, which extended to the end of April, nearly 40 staff were supporting the EOC in some capacity.

On May 1, the City transitioned EOC operations to Level Two. This structure allows for a sustained emergency response to address shifting community needs and implement the phased rollout of Washington's Safe Start Recovery plan.

Purchases and staff time related to the emergency response have been tracked since the EOC was activated. This ensures eligibility for reimbursement from the State and the Federal government when funding becomes available.

### Budget Amendment for Emergency Response

The budget amendment includes an authorization to use Contingency Funds to support emergency response expenses through August 31, 2020 as summarized in the table below.

<b>Unbudgeted EOC Costs</b>					
	<i>Prior to May 1</i>	<b>May</b>	<b>June</b>	<b>July</b>	<b>August</b>
<i>Level 1 EOC supplies and services</i>	<i>150,000</i>				
Level 2 EOC staff costs		74,000	74,000	74,000	74,000
Level 2 EOC supplies and services		12,500	12,500	12,500	12,500
Monthly Totals	<i>\$150,000</i>	\$86,500	\$86,500	\$86,500	\$86,500
<b>Budget Appropriation</b>					<b>\$ 496,000</b>

### Supplies and Equipment

Through May 1, 2020, the City has incurred \$150,000 in unbudgeted emergency-related expenditures in supply costs. In May, staff acquired and prepared to install equipment to facilitate the eventual re-opening of key public facilities. This includes personal protective equipment, sneeze guards at public counters, stanchions, and floor markings to protect staff and the public as well as encourage appropriate social distancing.

Going forward, unbudgeted costs for supplies and equipment related to the Pandemic and the new operating requirements associated with the Governor's Safe Start Plan is estimated at \$12,500 monthly. This includes items such as personal protective equipment, auxiliary restroom facilities, cleaning supplies, and equipment to further modify interior public spaces.

### EOC Staff Support

As previously described, the EOC is currently operating at Level Two and City staff are expecting to sustain this operating level through the end of 2020. Currently, there are about 20 staff positions that, on any given day, provide support to the EOC. Of these positions, eight are temporary positions fully dedicated to the EOC and authorized through the first week of June.

The other positions are staff that support the EOC and also perform regular duties for the City. The budget amendment includes funding to sustain these temporary EOC positions through the end of August and to address specific tasks associated with EOC operations including:

- Timekeeping and emergency response cost tracking
- Grant management, including preparing reimbursement requests
- Recovery planning
- Interagency communications
- Centralized customer service (Call Center)

The Level Two EOC operation also includes staff resources to manage/oversee specific business lines that are fully or partially suspended because of the Pandemic:

- Recreation programs and services
- Facility rentals
- Facility management

Unbudgeted staff resources needed to sustain the emergency response are estimated at \$74,000 per month. Use of Contingency Funds is requested to maintain current EOC operation levels through the end of August 2020. These expenses, along with the emergency-related supply costs, are eligible for reimbursement through the CARES Act (\$734,000 to be passed through from the State) or future potential Federal reimbursements.

### Unemployment Reserve

As the City implements furloughs, layoffs, or reduced hours, depending on the circumstances, employees may be eligible for unemployment benefits. Rather than paying unemployment claims directly from department budgets via vacancy savings, this budget amendment authorizes the use of up to \$300,000 from the Contingency Fund to establish an Unemployment Reserve to cover unemployment costs.

The City of Mercer Island, like most cities, uses the reimbursable method to cover unemployment costs. The City in effect “self-insures” by paying for the unemployment costs of former employees. This is standard practice for local governments given that unemployment costs are typically low, except for rare circumstances such as the current Pandemic.

Unemployment costs are currently estimated at \$275,000 for 2020. This fully burdened estimate, however, is highly unpredictable – former employees who qualify for unemployment may not apply, may find other employment opportunities, or may not utilize the full extent of their benefits. Furthermore, the City is required to cover a portion of unemployment costs for former employees working elsewhere in 2020, who were laid off, and applied for and received unemployment benefits.

The federal government has agreed to reimburse 50 percent of unemployment benefit payments made by political subdivisions and most nonprofit organizations from March 13 through December 31, 2020 through the CARES Act. The reimbursement mechanism is still being worked out by the State Employment Security Department and in the meantime the City must pay the full cost of unemployment. Once federal reimbursements are confirmed and received, staff will return to Council in 2021 (or sooner) to close out the Unemployment Reserve and seek City Council direction to rebalance the Contingency Fund.

#### Compensated Absences Reserve

The Compensated Absences Reserve was established to cover accrued benefit cash-outs when employees separate from the organization. This includes earned vacation and comp time benefits accrued during employment. When employment ends, employees are entitled to the value of these accrued benefits provided in a one-time cash payment, per City policy or their respective collective bargaining agreement.

The current balance in the Compensated Absences Reserve is \$1,051,055. For financial reporting purposes, the City calculates the liability resulting from accrued benefit policies each year. The general liability at 2019 year-end was approximately \$1.3 million, however, the City is not required to fully fund the liability as a reserve. The existing reserve has remained unused for many years, largely because the savings realized from position vacancies was sufficient to cover the costs of the accrued benefit cash-outs and was absorbed within department budgets.

The cost of the accrued benefit cash-outs associated with the Phase 1 and Phase 2 workforce reductions is currently estimated at \$131,000. Additional one-time cash-out costs are anticipated in 2020 as a result of additional workforce reductions and employee separations (retirements and resignations).

The budget amendment authorizes use of the Compensated Absences Reserve for its intended purpose – to pay accrued benefit cash-outs in 2020, not to exceed \$300,000. Doing so ensures accurate tracking of accrued benefit cash-outs, particularly during the Pandemic. It also provides a clean accounting of post-employment costs.

#### Next Steps

Staff will return to the City Council on June 9, 2020 with an updated Financial Status report and recommendations to further address the remaining \$1.9 million General Fund projected revenue shortfall in 2020. Recommended cost saving measures will include a review of all departments and funds receiving General Fund support along with operating strategies to maintain essential service delivery.

## RECOMMENDATION

### MOVE TO:

1. Suspend the City Council Rules of Procedure 6.3, requiring a second reading for an ordinance.
2. Adopt Ordinance No. 20-08 amending the 2019-2020 budget to:
  - a. Memorialize the Phase 1 and Phase 2 cost saving measures totaling \$2,785,600 in General Fund reductions.
  - b. Appropriate \$496,000 in Contingency Funds to support ongoing emergency operations through August 31, 2020.
  - c. Authorize use of up to \$300,000 in Contingency Funds to establish an Unemployment Reserve.
  - d. Authorize use of the Compensated Absences Reserve for one-time accrued benefit cash-outs in an amount not-to-exceed \$300,000.