



BUSINESS OF THE CITY COUNCIL CITY OF MERCER ISLAND

AB 5701
June 9, 2020
Regular Business

AGENDA BILL INFORMATION

TITLE:	AB 5701: COVID-19 Response: Financial Status Update and Phase 3 Cost Saving Measures	<input checked="" type="checkbox"/> Discussion Only <input type="checkbox"/> Action Needed:
RECOMMENDED ACTION:	Receive report and provide staff direction related to Phase 3 cost saving measures and next steps in the City's COVID-19 response.	<input type="checkbox"/> Motion <input type="checkbox"/> Ordinance <input type="checkbox"/> Resolution

DEPARTMENT:	Finance
STAFF:	Matthew Mornick, Interim Finance Director
COUNCIL LIAISON:	n/a
EXHIBITS:	1. Financial Status Report: January thru April 30, 2020 2. Phase 3 General Fund Summary
CITY COUNCIL PRIORITY:	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.

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

SUMMARY

This agenda bill provides the City Council with a financial status report and detail on the \$1.2 million in Phase 3 cost saving measures to help address the remaining projected General Fund revenue shortfall.

On May 5, 2020, staff presented the City Council with a 2020 General Fund revenue projection based on the economic contraction created by the COVID-19 pandemic ("Pandemic"), which forecasted a \$4.7 million General Fund revenue shortfall (15%) in 2020. On June 2, staff returned to the City Council to memorialize Phase 1 and Phase 2 cost savings measures and reduce the 2020 Adopted Budget through a budget amending ordinance, establishing a new baseline budget. Collectively these efforts reduced the General Fund budget gap by \$2.8 million. Staff committed to return to the City Council with additional plans (Phase 3) to address the remaining General Fund revenue shortfall (\$1.9 million).

Exhibit 2 outlines the efforts to address the General Fund revenue shortfall to date, including cost saving measures from Phase 3. This includes a first quarter revenue adjustment to reflect utility tax receipts for cable T.V., garbage, and franchise fees that were due in March, yet were received and posted the beginning of May. These revenues were excluded in the May 5 General Fund Revenue projection. Taking these additional utility

tax revenues into account, the remaining projected General Fund revenue shortfall after Phase 1 and Phase 2 cost saving measures is \$1.57 million.

Note on Timing of Agenda Bills

On June 2, the City Council received agenda bill [5694](#) to amend the City's 2020 Adopted Budget, establishing a new baseline budget. This new baseline budget includes the cost saving measures from Phase 1 and Phase 2 of the City's response to the current Pandemic. Given the timing of AB 5694, the budget reductions adopted in Ordinance 20-08 are not reflected in the current financial status report.

FINANCIAL STATUS UPDATE

On May 5, agenda bill [5687](#) outlined in detail the guiding assumptions for each revenue stream in the General Fund, and how these revenues were being impacted by the Pandemic. In keeping with staff's efforts to provide the City Council with quarterly updates on the City's financial position, Exhibit 1 includes financial results for revenue and expenditure categories through April 30, 2020. The budget reflected in the financial status report includes budget amendments adopted by ordinance through April 30, 2020.

Based on the financial data through the month of April, the City has collected \$9.3 million in General Fund revenues, or 28.8 percent of the pre-pandemic revenue budget, and \$10.5 million in expenditures or 32.4 percent of budgeted expenditures. It is far too early to draw conclusions based on this data as it largely reflects activity occurring prior to the onset of the Pandemic.

The economy drastically changed in March 2020. Since March, staff has been working to monitor the City's fiscal health and make timely adjustments ahead of the dramatic revenue challenges expected through the end of the year and into 2021.

PHASE 3 COST SAVING MEASURES

Staff has identified an additional \$1.2 million in cost saving measures, as summarized in Exhibit 2 (Phase 3 General Fund Summary). Highlights of Phase 3 include:

- **Reduced Transfer to the Equipment Rental Fund (\$277,200):** The Equipment Rental Fund (503) is an internal service fund used to account for fleet services provided to City departments on a cost reimbursement basis. Fund 503 accounts for the cost of maintaining and replacing City vehicles and heavy equipment. Each department is charged two separate monthly fees for the use of these assets. First, the Operations and Maintenance fee pays for the current operating costs of the Fund including administration, fuel, parts, insurance, and mechanical support. The second fee is the vehicle replacement charge which contributes to a reserve within the Fund that accumulates the resources for the future replacement of vehicles and equipment that have reached the end of their useful life.

For 2020, the General Fund is slated to pay \$329,900 toward the future cost to replace vehicles and heavy equipment that will eventually meet the end of their useful life. Staff recommends deferring \$277,190 in equipment replacement contributions for 2020. The deferral amount does not include \$52,710 in replacement contributions tied to Police Patrol Cars. Patrol cars are currently on a four-year replacement cycle. Based on repair and maintenance experience for patrol cars, deferring their replacement would have significant negative impacts on safety and reliability of the vehicles.

Eliminating the 2020 equipment replacement contribution will lower the General Fund interfund transfer costs. Future impacts to the Equipment Rental Fund may include deferring the replacement

of aging assets, the need to increase capital replacement contributions in future years and the potential for increased maintenance costs over the life of assets.

- Departmental One-time Budget Savings (\$519,000): In early May, the staff Leadership Team reviewed the City's operating budget. Each department evaluated expenditure actuals through April and anticipated expenses through year-end. The table below summarizes recommended one-time expenditure reductions.

General Fund Phase 3 Non-Personnel (in thousands)				
Category	Adopted Budget	Reduction	Adjusted Budget	% Cut
Contractual Services	2,331	250	2,081	10.7%
Equipment Rental (Radio Repl)	1,547	25	1,522	1.6%
Insurance	840	108	732	12.9%
Intergovernmental	1,300	78	1,222	6.0%
Interfund Transfers	410	58	352	14.1%
TOTAL	\$6,427	\$519	\$5,909	8.1%

The \$519,000 in one-time savings includes the following reductions:

- \$250,000 in professional services budget carried forward from 2019 in support of the ADA Transition Plan. Work on this plan has been delayed to future years.
- \$25,000 in contributions toward the future replacement of 800 MHz radios for public safety. The replacement fund has adequate reserves to support anticipated regional updates to radio infrastructure and to replace existing radios as needed.
- \$108,000 in savings realized in the General Fund for liability and property insurance premiums in 2020.
- \$78,000 in savings realized for Police Dispatch services through Norcom in 2020.
- \$58,000 in interfund transfers from the General Fund to the Technology and Equipment Fund specific to a replacement reserve for equipment and furnishings for the Mercer Island Community and Events Center. Of the total, \$40,000 was budgeted based on MICEC revenues and the remaining \$18,0000 using property tax.

These one-time expenditure reductions offset the anticipated General Fund revenue shortfall, while also adjusting work plan priorities.

- Municipal Court Staffing Reductions (\$13,000): In March, the Mercer Island Municipal Court closed until April 24 in alignment with Governor Inslee's first Stay Home, Stay Healthy order. On May 5, 2020, Judge Stewart issued a second Administrative Order closing the Court until July 31, 2020. Although Court staff have been working since the closure of the Court, a decision was made to implement furloughs until July 31, 2020 to reduce Court expenses. This generates a savings of \$13,000 for the 75-day period (5/16-7/31).
- Community Planning and Development (CPD) Staffing Reductions (\$388,900): Several layoffs have been implemented in the CPD Department due to less than anticipated revenues. CPD's 2019 year-end revenues were 20% below budget estimates for the year. This downward trend continued into the first quarter of 2020. At present, a handful of large development projects are in the pipeline and may move forward, while routine permit applications have somewhat slowed. Staff anticipated this

recent downward trend to carry through 2020 and assumed a 30% decline in permit revenues through the end of 2020, which represents a \$1.2 million shortfall at year-end.

The positions eliminated within CPD are both represented and non-represented and include one contract employee. These reductions generate a savings of \$388,900 for the remainder of 2020.

CARES Act Funding from the State

The City will receive \$734,100 in CARES Act funding through the State of Washington to offset costs associated with the Pandemic. Though this funding cannot be used to offset the Pandemic-related revenue losses, it can be used to offset costs the City is incurring, including the cost of operating the Emergency Operations Center, unbudgeted staff time related to the City's Pandemic response efforts, and other unbudgeted City expenditures that have shifted away from normal day-to-day responsibilities to Pandemic-related activities.

Assuming the infusion of these CARES Act funds to the City's General Fund, the \$734,100 could be used to support these nonbudgeted costs through the end of 2020.

Under a federally declared disaster, the City would normally receive reimbursement of 75% of emergency response costs through FEMA, 12.5% through the State of Washington, and the remaining 12.5% of the costs are the responsibility of the City. Uncertainty remains about the ability of the State of Washington to fund their 12.5% share, given their projected revenue shortfalls.

Staff in the Emergency Operations Center are proactively seeking additional opportunities for FEMA relief funds. Efforts are underway with the application process to seek reimbursements through FEMA's Public Assistance Program. The initial portion of the City's application will be processed no later than the third week of July. The FEMA Public Assistance Program application process is a drawn-out endeavor that will continue through the end of the year. Assuming the City qualifies, and resources are available and extended to small Washington Cities, FEMA reimbursements are not expected until 2021 or later.

Unemployment Reserve

Staff estimates a fully burdened unemployment cost of \$133,600 associated with Phase 3 cost saving measures. This estimate is the maximum amount the City may be liable to pay, however, actual unemployment costs are 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.

All unemployment costs will be charged to the unemployment reserve established at the June 2, 2020 City Council meeting. The reserve provides for cleaner cost tracking than the past practice of absorbing unemployment costs within Department vacancy savings. Should unemployment costs approach the \$300,000 reserve established by the City Council, staff will return to the City Council with detailed background information to request an additional appropriation.

The federal government agreed to reimburse 50 percent of unemployment benefit payments made by local governments between March 13 and 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

Staff estimates \$28,000 in one-time accrued benefit cash-outs associated with Phase 3 cost saving measures. The June 2 budget amendment (Ord. [20-08](#)) authorized use of the Compensated Absences Reserve to pay accrued benefit cash-outs in 2020, not to exceed \$300,000. Phase 3 accrued benefit cash-outs will be charged to the Compensated Absences Reserve.

NEXT STEPS

With Phase 3 cost saving measures, a projected \$372,000 General Fund budget deficit remains. Staff is working to close the remaining General Fund gap with additional cost saving measures, future negotiations with the City's labor partners, and additional state and federal resources.

On June 16, 2020, staff will return to the City Council with analysis and recommendations regarding the Youth and Family Services Fund and future investments and operation opportunities for the Thrift Shop. Staff will include a revised forecast of other non-general government Funds impacted by the Pandemic. At the end of June, staff will be focusing on the 2021-2022 biennial budget process and will provide an overview of the anticipated budget review schedule in July.

RECOMMENDATION

Receive report and provide staff direction related to Phase 3 cost saving measures and next steps in the City's COVID-19 response.