



BUSINESS OF THE CITY COUNCIL CITY OF MERCER ISLAND

AB 5837
April 20, 2021
Regular Business

AGENDA BILL INFORMATION

TITLE:	AB 5837: Financial Status Update: FY 2020 Year-End and Budget Carryover Requests	<input type="checkbox"/> Discussion Only
RECOMMENDED ACTION:	Receive staff's update, suspend City Council Rules of Procedure 6.3, and adopt Ordinance No. 21-07, amending the 2021–2022 Biennial Budget.	<input checked="" type="checkbox"/> Action Needed: <input type="checkbox"/> Motion <input checked="" type="checkbox"/> Ordinance <input type="checkbox"/> Resolution

DEPARTMENT:	Finance
STAFF:	Matthew Mornick, Finance Director Lajuan Tuttle, Deputy Finance Director Ben Schumacher, Financial Analyst
COUNCIL LIAISON:	n/a
EXHIBITS:	1. Financial Status Update – FY 2020 Year-End 2. Ordinance No. 21-07 – FY 2020 Carryover Requests
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

The purpose of this agenda bill is to provide the City Council with the 2020 Year-End Financial Status Update, which includes year-end fund balances.

The Fund Balance in the City's General Fund at the end of fiscal year (FY) 2020 is \$10.4 M. Of this amount, \$6.5 M is committed because of prior City Council actions, including restricted uses and appropriations for one-time strategic investments in 2021-2022. Budget Amending Ordinance No. 21-07 (Exhibit 2) outlines an additional \$1.6 M of the General Fund Balance in carryover requests for work that commenced during the previous biennium but is not yet complete.

The remaining surplus of \$2.24 M represents the available unassigned Fund Balance in the General Fund. This surplus is due to better than anticipated general sales tax revenues, Business and Occupation (B&O) Tax revenues, new revenues resulting from the Ground Emergency Medical Transport (GEMT) Program, and savings from departmental budgets.

This agenda bill provides context for how the FY 2020 General Fund year-end surplus came to be, requests operating and capital budget carryovers from the FY 2019-2020 budget and introduces a handful of requests to invest a portion of this one-time surplus. Detailed analysis across all Funds is provided in Exhibit 1, the FY 2020 Year-End Financial Status Update.

BACKGROUND

Prior City Council Action

Just after the COVID-19 pandemic (“Pandemic”) took hold in the Puget Sound region early last year, staff and the City Council began several rounds of strategic decisions to protect City services and financial resources.

In May, staff presented [AB 5687](#) to the City Council, which included an updated 2020 General Fund forecast resulting from the economic contraction caused by the Pandemic and immediate cost savings measures implemented that spring. At the time, staff projected a \$4.7 M revenue shortfall in the General Fund (15%) by the end of 2020.

Staff returned to the City Council June 2 with [AB 5694](#) to amend the 2020 adopted budget and memorialize changes resulting from the Phase 1 and Phase 2 cost saving measures, collectively reducing the General Fund budget by \$2.8 M.

The City Council further authorized use of \$300,000 from the Compensated Absences Reserve for one-time use of accrued benefit cash-outs (per City policy and Collective Bargaining Agreements) resulting from recent employee layoffs or separations. In addition, \$300,000 from the Contingency Fund was used to establish an Unemployment Reserve to mitigate the burden of unpredictable post-employment expenses in the General Fund and the Youth and Family Service (YFS) Fund.

The City Council also authorized use of Contingency Funds to support the City’s ongoing Pandemic response through year-end and in [AB 5700](#), provided one-time gap funding for Youth and Family Services. Counselors were furloughed to part-time and paid using YFS Fund reserves and extra donations from the Mercer Island Youth and Family Services Foundation. The \$250,000 contribution in gap-funding from the Contingency Fund made up the difference.

On June 9, 2020, in [AB 5701](#) staff outlined a third phase of one-time strategies to reduce 2020 expenses that amounted to over \$1 M in expenditure savings in 2020, further reducing the baseline budget.

Taken collectively, three rounds of cost saving measures implemented from March through June reduced the 2020 expenditure budget by \$3.8 M, amending the General Fund baseline expenditure.

On September 1, staff provided the City Council a revenue forecast in [AB 5741](#), projecting \$28.7 M in General Fund revenues by FY 2020 year-end, down from the original adopted 2020 revenue budget of \$32.7 M. Staff made conservative assumptions based on both revenue actuals from January 1 through June 30, 2020 as well as regional economic activity about the trajectory of the economy and in turn, the City’s financial position.

DISCUSSION

Financial Status Update: FY 2020 Year in Review

The Financial Status Update (Exhibit 1) includes revenue and expenditure actuals from January 1 through December 31, 2020. The budget reflected in the update includes budget amendments adopted by ordinance through November 2020.

Overall, the Fund Balance in the General Fund at the end of fiscal year (FY) amounted to \$10.4 M.

Of this, \$6.5 M is committed as a result of prior Council actions. This includes \$2.8 M in restricted uses and \$3.7 M assigned by the City Council for one-time strategic investments in the 2021-2022 biennium. In Exhibit 2, Ordinance No. 21-07 outlines an additional \$1.6 M of the Fund Balance be carried forward for work that was authorized and commenced during the previous biennium but is not yet completed.

The remaining surplus of \$2.24 M represents the unassigned Fund balance in the General Fund. This surplus is due to better than anticipated General Sales Tax revenues, Business and Occupation (B&O) tax revenues, new revenues resulting from the GEMT Program, and savings from departmental budgets.

General Fund - Fund Balance Components	Amount
Reserved Fund Balance	
RESTRICTED	
Inventory of Supplies	120,857
Technology Fund Reserve	80,302
Reserve for Jails - JAG Proceeds	79,437
Petty Cash	1,500
LEOFFI Long Term Care Reserve	1,730,567
Compensated Absence Reserve	751,055
ASSIGNED	
LEOFFI Long Term Care one-time contribution	400,000
Recreation Startup & Operations - 2021	800,000
Thrift Shop Startup - 2021	100,000
Youth & Family Services Fund Support	959,549
Fund Balance for 2021-22 Expenditures	1,513,739
SUBTOTAL	6,537,006
FY 2020 Budget Carryover Request (Ord No. 21-07)	1,590,252
Total Reserved Fund Balance	8,127,258
Unassigned Fund Balance	2,244,229
Total Fund Balance	\$10,371,487

Property tax performed as expected. General Sales Tax and Business and Occupation Tax (B&O) performed better than anticipated. At year-end, the City received \$4.6 M in General Sales Tax, exceeding the September Forecast sales tax projection by \$500,000.

The September Forecast was based on revenue actuals from January thru June 2020, the City's overall financial position, and regional and statewide socioeconomic activity at that point in time. Although Sales Tax revenues were up in the beginning of FY 2020 compared to FY 2019, Sales Tax revenues were 8% lower April through June compared to the same period in FY 2019. Staff assumed this downward trend was caused by the Pandemic and would carry through the end of the year. The inverse proved to be true.

The economy was more resilient and performed better the last six months of 2020 than most expected. Losses in Sales Tax revenue in construction and food services were surpassed by gains in retail and wholesale trade and administrative and support services. From July through December, the City generated \$2.5 M in General Sales Tax, \$140,000 more than the same period in 2019. Sales Tax revenues the last six months of 2020 outperformed the same period in both 2019 and 2018.

This midyear upward trend was also apparent in business license and B&O revenues. Although the local business community has been significantly impacted by the Pandemic, business license and B&O tax revenues grew, exceeding amended budget estimates by nearly \$200,000. Since the City transitioned to the State Department of Revenue Business Licensing Service (BLS), the number of Mercer Island business licenses has grown, which in turn is resulting in increased revenues in both business licensing and B&O taxes.

In FY 2020, the Mercer Island Fire Department (MIFD) enrolled in a federal program to seek financial reimbursements for GEMT services provided to Medicaid patients ([AB 5824](#)). The City received \$232,035 in additional Medicaid reimbursements in February 2021 for transporting Medicaid patients from the period July 1, 2019 to June 30, 2020.

In response to the ongoing Pandemic, General Fund expenditures were notably restrained through year-end. Total expenditures of \$29.1 M were 90% of the budget as amended and \$2.1 M less than 2019, reflecting the three rounds of phased service-level reductions that began in late May and were carried through to the end of the year.

City staff at all levels of the organization made a concerted effort to utilize City resources primarily on emergency response and services deemed essential, given the fiscal uncertainty caused by the Pandemic. This combined effort was reflected in savings across all departmental expenditure budgets.

Uses of FY 2020 Year-End Surplus

By its nature, the FY 2020 year-end General Fund surplus of \$2.24 M is a one-time resource. Staff will schedule a follow-up discussion with City Council later in the year to discuss how best to appropriate the General Fund surplus on strategic, one-time investments. For now, staff recommends the City Council appropriate \$295,000 of the \$2.24 M based on immediate one-time needs as summarized in the table and further described below.

General Fund Surplus Requests		FY 2021	FY 2022
1	Public Right-of-Way Clean-up/Replanting	\$100,000	-
2	Paid Family Medical Leave	\$15,000	\$30,000
3	Professional Services	\$150,000	-
TOTAL		\$265,000	\$30,000

Invest in the Public Right-of-Way. Planter bed maintenance, primarily within the Town Center and Island Crest median, was a budget reduction during the 2019-2020 biennium. Deferred maintenance included the reduction of services such as pressure washing sidewalks and furniture, planter bed maintenance including the annual flower and hanging basket beautification program, and early-stage crack repairs.

Staff is recommending \$100,000 to enhance and maintain the right-of way along Island Crest Way (from the I-90 to SE 68th Street) as well as the Town Center planter beds. The proposed scope of work includes removing weeds and dead vegetation, evaluating soil composition, irrigation capabilities, and designing a cohesive planting scheme that incorporates perennial and annual plants to enhance the rights-of-way.

Switch to State Plan for Paid Family Medical Leave. Paid Family and Medical Leave (PFML) is a benefit for Washington workers when a serious health condition prevents an employee from working (medical leave) or when an employee needs time to care for a family member, bond with a new child, or spend time with a family member preparing for military service overseas (family leave).

When PFML was implemented in 2019, City leadership decided that instead of having the State administer the leave for employees, the City would implement a voluntary plan and be responsible for administering the plan and paying associated program costs in full. In 2020, the City paid \$49,829 in direct PFML benefits for employees that would have otherwise been paid by the state. Administering the voluntary PFML plan is one of the many responsibilities undertaken by the Administrative Services Department and is not an efficient use of staff time.

Staff recommends the City switch to having employees apply for leave directly with the State, thus relieving the City of a portion of the cost of the leave and administration of the program.

With this change, the City is required to pay some of the employee's share of premiums on behalf of the employee. For 2021, the PFML premium is 0.4% of each employee's gross wages (pre-tax wages) which includes both family leave and medical leave. Of this 0.4% of gross wages, employees pay 63.33%, and the employer pays the remaining 36.67% (premiums are capped at the 2020 Social Security Wage Base of \$142,800).

Below is an example of the premium breakdown for an employee with an annual salary of \$75,000.

Employee Annual Gross Pay: \$75,000			
	Sum	Employer	Employee
Family Leave Premium	\$99.99	\$0.00	\$99.99
Medical Leave Premium	\$200.01	\$110.01	\$90.00
Total Premium	\$300.00	\$110.01	\$189.99

Staff is requesting an appropriation of \$45,000 for the employer portion of PFML premiums (\$15,000 for the second half of FY 2021, and \$30,000 for FY 2022). These will be ongoing costs and incorporated in future biennial budgets.

Invest in Professional Services. The organization went through fundamental changes in FY 2020 because of the ongoing Pandemic. Staffing levels were changed, departments re-organized, and budgets were reduced. The result is a leaner organization that over the next biennium will build back service levels more efficiently and effectively than before.

The \$150,000 Professional Services appropriation provides funding for additional third-party/contract support to keep pace with the most pressing needs and take on additional new work as required. Furthermore, it provides a backstop to current staffing levels should unforeseen circumstances arise that result in extended leave (e.g. medical leave).

FY 2020 Carryover Requests

Carryovers relate to uncompleted projects, programs, contracts, or purchases that were authorized but not spent in the 2019-2020 biennial budget. To complete these items, both the funding and the expenditure authority need to be "carried over" from the 2019-2020 Budget to the 2021-2022 Budget.

To that end, the 2021-2022 Adopted Budget needs to be amended. Funding for carryovers primarily comes from recognizing internal resources such as cash and external resources such as grants that were obligated but not spent in the prior biennium.

Staff recommends carryover requests that total \$1.59 M in the General Fund and \$1.43 M in other Funds, for a total of \$3.02 M in carryover requests.

Ordinance No. 21-07 (Exhibit 2) provides a detailed list of projects and programs. Council approval is required when unspent budget is moved from the prior biennium to the current biennium, but not when unspent budget is being moved within the biennium and within the same fund.

RECOMMENDATION

1. Suspend the City Council Rules of Procedure 6.3, requiring a second reading for an ordinance.
2. Adopt Ordinance No. 21-07, amending the 2021-2022 Biennial Budget.
3. Appropriate a portion of the FY 2020 budget surplus to the following:
 - 3.1. \$100,000 for public right-of-way clean-up and replanting.
 - 3.2. \$45,000 to switch to the state-run Paid Family and Medical Leave plan.
 - 3.3. \$150,000 to hire professional services/contracts, as needed to support 2021-2022 work plan goals.