



BUSINESS OF THE CITY COUNCIL CITY OF MERCER ISLAND

AB 5741
September 1, 2020
Regular Business

AGENDA BILL INFORMATION

TITLE:	AB 5741: Revenue Forecast and Second Quarter Financial Status Report	<input type="checkbox"/> Discussion Only <input checked="" type="checkbox"/> Action Needed:
RECOMMENDED ACTION:	Receive the September Revenue Forecast; review and adopt Ordinance No. 20-19 amending the 2019-2020 budget to incorporate Phase 3 cost saving measures.	<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. General Fund Revenue Forecast 2. Phase 3 Cost Saving Measures - Budget Amending Ordinance No. 20-19 3. Second Quarter Financial Status Report
CITY COUNCIL PRIORITY:	n/a

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

SUMMARY

EXECUTIVE SUMMARY

Just after the COVID-19 Pandemic ("Pandemic") took hold in the Puget Sound region in April, staff projected a \$4.7 million revenue shortfall in the General Fund (15%) by the end of 2020. Since then, staff has worked closely with the City Council to preserve critical services, safeguard City resources amidst economic uncertainty, and remain responsive to the community's changing needs during the Pandemic.

With time and additional information, the September forecast now projects a \$3.4 million revenue shortfall in the General Fund (as opposed to \$4.7 million in May). Coupled with three phases of cost saving measures implemented between March and June that reduced the 2020 expenditure budget by \$3.8 million, and so long as revenues remain steady, staff projects a balanced General Fund at year-end.

This agenda bill provides a financial status update focused on the City's revenues, which includes the second quarter Financial Status Report (see Exhibit 3). The revenue forecast provides an outlook on City finances through year-end and serves as the foundation for the 2021-2022 Proposed Preliminary Budget the City Manager will transmit to the City Council at the end of September.

BACKGROUND

Prior Council Action

On May 5, 2020 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 in March and April. The presentation also included estimated costs associated with the ongoing emergency response.

In April 2020, staff projected a \$4.7 million revenue shortfall in the General Fund (15%) by the end of 2020.

Staff returned to the City Council on June 2, 2020 with [AB 5694](#) to amend the adopted budget and memorialize changes resulting from the Phase 1 and Phase 2 cost saving measures. Collectively these efforts reduced the General Fund by \$2.79 million, establishing a new baseline budget.

The City Council took further action authorizing use of the Compensated Absences Reserve for accrued benefit cash-outs (per City policy or Collective Bargaining Agreements) resulting from recent employee layoffs or separations as well as establishing an Unemployment Reserve to mitigate the burden of unpredictable post-employment expenses in the General Fund and the 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 (YFS) while a working group of City Councilmembers, Mercer Island Youth and Family Services (MIYFS) Foundation Board Members, and City staff explore ongoing funding measures to sustain YFS services.

On June 9, 2020, staff presented [AB 5701](#) to the City Council, outlining a third phase of one-time strategies to reduce expenses coupled with ongoing cost saving measures that amounted to over \$1 million in expenditure savings in 2020. Budget amending Ordinance No. 20-19 (see Exhibit 2) memorializes the Phase 3 cost saving measures approved by the City Council, along with other budget adjustments since early June, into the baseline budget.

These combined efforts have established a new baseline budget that will inform the 2021-2022 biennial budget process.

Note on Timing of Agenda Bills

The General Fund revenue forecast outlined below includes the new baseline budget resulting from Phase 1 and Phase 2 cost saving measures adopted in early June. Budget reductions in proposed Ordinance No. 20-19 are not reflected in the current financial status report or revenue forecast.

FINANCIAL STATUS UPDATE

In keeping with staff's efforts to provide the City Council with quarterly updates on the City's financial position, Exhibit 3 includes financial results for revenue and expenditure categories through June 30, 2020. The budget reflected in the financial status report includes budget amendments adopted by ordinance through June 2, 2020.

Based on the financial data through the month of June, the City has collected \$14.9 million in General Fund revenues, or 48.2 percent of the revenue budget as amended. Property tax is performing well, and general sales tax and utility taxes are tracking better than anticipated when last reviewed in April. Total General Fund revenues are \$1.4 million less than at the end of the second quarter 2019. The shortfall, as compared to

2019, is driven by anticipated declines in recreation, licenses, permitting and land use revenues resulting from Pandemic impacts to City operations.

General Fund expenditures are within budget estimates at the end of June. Total expenditures of \$14.8 million are 48.3% of the budget as amended. Total expenditures are \$1.1 million less than the same period in 2019 reflecting the phased expenditure reductions that began in late May of 2020. Ordinance 20-19 memorializes phase three reductions, bringing the total cost saving measures to \$3.8 million. Salary and Benefit costs are on track at 50% of the amended budget at the mid-point of the year. Other services and charges, which includes insurance, utilities, jails, and intergovernmental costs, are approaching the 50% expectation but still below the prior year spend. All other expenditure categories are well below budget for the mid-point of the year. It is expected that all categories will remain within budget expectations through the end of the year and no reductions beyond phase three are currently anticipated.

General Fund Expenditures (in millions)	Actual June 30, 2019	2020 Budget as Amended	Actual June 30, 2020	% of Budget
Salary & Benefits	\$11.67	\$22.30	\$11.26	50.5%
Supplies	0.31	0.96	0.27	27.9%
Contract Services	0.64	1.98	0.63	31.8%
Other Services & Charges	2.72	4.98	2.47	49.6%
Interfund Transfers Out	0.46	0.41	0.13	31.7%
Total Expenditures	\$15.80	\$30.63	\$14.75	48.2%

The City's Water, Sewer, and Stormwater Utility funds are operating well within budget expectations. Capital projects across the utility funds continue, though at a slower pace than originally anticipated due to the impacts of the Pandemic and the decrease in staffing levels.

In the YFS Fund total revenues are 22.2% of the amended budget at the end of June, down \$684,000 from the same period in 2019. The Pandemic caused the Thrift Shop and Luther Burbank Administration Building to close along with most City facilities in March 2020 severely limiting the ability of the YFS Fund to generate revenue. Expenditures for the YFS Fund are at 37.8% of budget at quarter end, reflecting the impact of phased reductions that began in early May. Budget amending Ordinance 20-19 will be the first to memorialize expenditure reductions in the YFS Fund and will bring the budget in line with actual spending levels.

All other operating and capital funds of the City are within budget expectations, and there are no significant variances to either revenue or expenditures.

REVENUE FORECAST

The revenue forecast projects the City's current year financial position, as well as the subsequent biennium, in preparation for 2021-2022 budget deliberations. Referred to as the September revenue forecast, it is based on budget actuals through June 30.

Revenue forecasting requires staff to make assumptions based on the best data available at the time and then adjust as new information becomes available.

Lags in the availability of data creates some uncertainty in the forecast, which is already challenging due to the unprecedented nature of the Pandemic. Staff continues to refer to the best local data available and track regional economic activity to formulate assumptions about the trajectory of the economy and in turn, the City's financial position.

Although Washington’s economy began to slowly re-open in May per the Governor’s Safe Start phased approach, many businesses remained closed or under limited operations. Re-opening efforts in urban economic centers that took place through June are best described as restrained, as allowed under Phase 2 of Washington’s Safe Start plan.

Trends at the National level mirror the back and forth efforts to stem the spread of the virus and re-open the economy. Even as nearly one million Americans file new state claims for unemployment benefits each week, the stock market is touching record highs. Hotels and airports are almost empty, and many restaurants remain closed, but home building is strong and national retail sales are tracking at levels that preceded the Pandemic.

The cross currents in the economy are striking, adding to the importance of a sound revenue forecast to navigate the high levels of uncertainty about the future. While the City saw some upticks in revenues in the second quarter (i.e. sales tax), it is unclear how long business operations will be limited, whether additional shutdowns lie ahead, whether the Federal government will expand support for individuals, businesses, and government entities struggling financially, and how long it will take the economy to recover. One way or the other, each factor will significantly impact the City’s future financial performance, underlining staff’s commitment to reference new information and adjust the forecast accordingly.

GENERAL FUND

In May 2020, staff projected a \$4.7 million revenue shortfall in the General Fund (15%) by the end of 2020. With additional perspective from second quarter actuals, staff is revising the General Fund forecast and now projecting a budget revenue shortfall of \$3.4 million (11%) at the end of 2020 as summarized in the table below.

General Fund	2019 Adopted Budget	2020 Adopted Budget	2020 Forecast (APR)	2020 Forecast (SEP)
Revenues	\$32.4 M	\$32 M	\$27.4 M	\$28.7 M

Slight differences may occur due to rounding

On the opposite side of the ledger, the three phases of cost saving measures reduced the 2020 expenditure budget by \$3.8 million, amending the General Fund baseline expenditure budget from \$31.9 million to \$28.1 million. With the revenues and expenditure changes described above, staff estimates a positive \$630,000 General Fund balance at year end – an amount adequate to cover the unbudgeted 27th pay period expense of \$588,000. This unbudgeted expense was previously referenced in [AB 5676](#) and is now reflected in Ordinance No. 20-19 (see Exhibit 2).

The remainder of the agenda bill focuses on the details of the year-end and the 2021-2022 revenue forecasts. The table below provides a summary of the revenue forecast by category and anticipates minor General Fund revenue improvements for the coming biennium, with revenues projected to increase from \$28.7 million in 2020 to \$29 million in 2021 and \$30.9 million in 2022.

Overall, property tax is performing well and general sales tax and utility taxes are tracking better than anticipated in April, while most other revenue categories (License, Permit, and Zoning Fees, Parks and Recreation revenues, Thrift Shop revenues, and Business and Occupation Taxes, among others) are performing worse – mainly due to the duration of the shutdown of City operations.

001 - GENERAL FUND	2020 Adopted Budget	2020 Forecast (SEPT)	2021 Forecast (SEPT)	2022 Forecast (SEPT)
REVENUE				
01-PROPERTY TAX	12,717,185	12,388,533	12,826,705	13,137,101
02-GENERAL SALES TAX	5,098,849	4,791,662	4,791,662	5,031,245
03-UTILITY TAXES	4,660,869	4,584,167	4,567,527	4,536,895
04-LICENSE, PERMIT, AND ZONING FEES	3,345,634	2,086,836	2,267,616	2,234,541
05-B&O TAXES	662,171	565,113	508,602	483,172
06-PARK AND RECREATION	1,592,900	350,688	111,022	1,572,836
07-EMS REVENUES	1,391,867	1,391,867	1,423,530	1,443,853
08-COST ALLOCATION	751,222	751,222	777,133	780,382
09-INTERFUND TRANSFERS	-	15,685	-	-
10-SHARED REVENUES	1,205,849	1,189,837	1,181,772	1,186,111
11-MUNICIPAL COURT	346,604	214,402	262,619	257,367
12-MISCELLANEOUS REVENUES	223,200	315,502	223,500	223,500
13-INTEREST EARNINGS	25,604	24,407	24,554	24,701
TOTAL REVENUES & SOURCES	32,021,954	28,669,922	28,966,243	30,911,703

Summary of General Fund Revenue Impacts by Revenue Category

The revised September forecast projects a \$3.4 million revenue shortfall in the General Fund through the end of 2020 because of the economic contraction caused by the Pandemic. The following analysis addresses the underlying assumptions and anticipated impacts to revenues within the General Fund.

Property Tax

As Exhibit 1 demonstrates, the 2020 Adopted Budget assumed \$12.7 million in property tax revenue, representing 40% of total General Fund revenues. This is a relatively stable revenue source. The May forecast assumed a 3% reduction due to the increased potential for non-payment. Although revenues through June are tracking with 2020 estimates, the forecast conservatively maintains the 3% reduction in property tax revenues through the end of the year.

Property tax in Washington state is due April and October each calendar year. Revenues collected through June align with pre-Pandemic financial assumptions. October will be the first period where non-payments may become a factor.

For 2021 and 2022, the forecast assumes the City will assess a property tax increase of the statutorily allowed 1% of the previously levied amount (i.e. 2020 Adopted) plus new construction each year.

	2020 Adopted	MAY Forecast	SEP Forecast	Difference	2021 Forecast	2022 Forecast
Property Tax	\$12,717,185	12,363,273	12,388,533	(328,652)	12,826,705	13,137,101

Sales Tax

The 2020 Adopted Budget assumed \$5.1 million in sales tax revenue, representing 16% of total General Fund revenues. Sales tax revenue is susceptible to economic contractions. Between 2008 – 2010, the City's sales tax revenues experienced a 22% decline. The May forecast assumed a 20% reduction in sales tax through May, then a 13% reduction through the remainder of the year, with a specific focus on business sectors most impacted by the Pandemic, including construction, retail, and food services.

Based on sales tax revenue data through June, revenues are up 1% compared to 2019. Although April through June revenues were 8% lower compared to the same period in 2019, this low performance was counterbalanced by the strong revenues January through March, when revenues were 13% higher than the same period in 2019.

Although the Sales Tax numbers for the first half of 2020 are better than expected, there is still reason for caution given the uncertainties of the Pandemic and the resulting economic impacts. The September forecast assumes a 6% decline in sales tax for 2020 (in contrast to the previous projection which included a 22% decline through May, and 13% decline thereafter through year-end). Long-term, the forecast assumes sales tax revenues remain flat through 2021, and rebound 5% in 2022.

	2020 Adopted	MAY Forecast	SEP Forecast	Diff.	2021 Forecast	2022 Forecast
General Sales Tax	\$5,098,849	4,228,902	4,791,662	(307,187)	4,791,662	5,031,245

Utility Taxes

The 2020 Adopted Budget assumed \$4.6 million in utility tax revenues, representing 15% of total General Fund revenues. This revenue stream is, for the most part, not subject to economic volatility. The September forecast assumes minor improvements given utility tax revenues through June are tracking with 2020 adopted budget estimates. Staff anticipates a 2% revenue decrease in 2020, due to declines in telephone and cellular sectors. For 2021 and 2022, revenues are projected to remain relatively flat.

	2020 Adopted	MAY Forecast	SEP Forecast	Diff.	2021 Forecast	2022 Forecast
Utility Taxes	\$4,660,869	4,271,542	4,584,167	(76,702)	4,567,527	4,536,895

License, Permits, and Zoning Fees

The 2020 Adopted Budget assumed \$3.3 million in license, permit, and zoning revenues, representing 10% of total General Fund revenues. Revenue tied to development services is highly technical to predict given the variation between when City services are provided and when payment for these services is received.

The Community Planning and Development (CPD) Department's 2019 year-end revenues were 20% below 2019 budget estimates for the year. This downward trend accelerated through the second quarter of 2020 – revenues through June are 28% lower compared to 2019 levels.

CPD staff anticipate this 18-month downward trend to carry through 2020. At present, a handful of large development projects are in the pipeline and may move forward, while routine permit applications have slowed. Given these factors, this forecast assumes a 38% decline in permit revenues through the end of 2020, which represents a \$1.3 million shortfall at year-end.

Staff anticipates specific multi-family project activity will move forward in 2021 and 2022, which directly informs the revenue projections below.

	2020 Adopted	<i>MAY Forecast</i>	SEP Forecast	Diff.	2021 Forecast	2022 Forecast
License, Permit, & Zoning Fees	\$3,345,634	2,109,780	2,086,836	(1,258,798)	2,267,616	2,234,541

Business and Occupation Taxes

The 2020 Adopted Budget assumed \$660,000 in business and occupation (B&O) tax revenue, representing 2% of total General Fund revenues. B&O tax is paid annually unless a business earns greater than \$1 million annually in gross receipts, in which case the tax is paid quarterly. Most B&O tax receipts are received on an annual basis, filed before April 15 for the year prior.

The business community has been significantly impacted by the impacts of the Pandemic. Several local businesses have closed, and many have curtailed operations. The September forecast assumes a 15% decline in B&O taxes in 2020, a 10% decline in 2021, and a 5% decline in 2022.

	2020 Adopted	<i>MAY Forecast</i>	SEP Forecast	Diff.	2021 Forecast	2022 Forecast
B&O Taxes	\$662,171	607,137	565,113	(97,058)	508,602	483,172

Parks and Recreation

The 2020 Adopted Budget assumed \$1.6 million in Parks and Recreation revenues, representing 5% of total General Fund revenues. These include revenues from community center rentals, recreation programming, and park facility rentals.

Park and Recreation revenues are significantly impacted by the Pandemic. When the April forecast was prepared, staff assumed recreation operations and programming would resume in September. Shortly after publication, staff revised the forecast and assumed operations would most likely be suspended through the end of the year.

The Parks and Recreation revenue forecast on the next page is challenging considering the uncertainty around the timing of resuming services. Staff are working on a recovery plan and anticipate presenting a strategy to the City Council in early 2021 that addresses a phased re-opening approach for recreation services. For the purposes of this forecast, the current assumption is that limited parks and recreation revenue will be received in 2021. If services are allowed to resume sooner than that, the City Council may approve a budget amending ordinance. For 2022, the forecast projects revenues akin to levels earned between 2016-2018.

	2020 Adopted	<i>MAY Forecast</i>	SEP Forecast	Diff.	2021 Forecast	2022 Forecast
P&R Revenues	\$1,592,900	581,523	350,688	(1,242,212)	111,022	1,572,836

Emergency Medical Service (EMS) Revenues

The 2020 Adopted Budget assumed \$1.4 million for EMS revenues, representing 4% of total General Fund revenues. This utility charge is adjusted each year based on the average cost of four firefighter positions, which were hired in 1996 to provide capacity to handle simultaneous EMS calls. Because utility charges will

continue, the assumption includes no change in 2020, with adjustments in 2021 and 2022 based on historical trends for the four firefighter positions.

	2020 Adopted	MAY Forecast	SEP Forecast	Diff.	2021 Forecast	2022 Forecast
EMS Revenues	\$1,391,867	1,391,867	1,391,867	-	1,423,530	1,443,853

Cost Allocation

The 2020 Adopted Budget assumed \$751,000 for this revenue stream, representing 2% of total General Fund revenues. These revenue categories recover overhead costs from the Utility Funds through internal transfers between Funds. Because of the technical nature of these revenues, this forecast assumes no change through the end of the year, and in 2021 and 2022 revenues will increase based on assumptions for salaries, benefits, and facility costs. For now, the estimates for 2021 and 2022 are based on historical trends and will be fine-tuned as work continues on the 2021-2022 Proposed Preliminary budget in the coming month.

	2020 Adopted	MAY Forecast	SEP Forecast	Diff.	2021 Forecast	2022 Forecast
Cost Allocation	\$751,222	751,222	751,222	-	777,133	780,382

Shared Revenues

The 2020 Adopted Budget assumed \$1.2 million in shared/intergovernmental revenues, representing 4% of total General Fund revenues. This category combines a variety of revenues and includes State shared tax revenues, grants, and the agreement with WSDOT for landscape services in Aubrey Davis Park.

After reviewing second quarter actuals, the revised forecast reflects a modest 1% decrease through the end of the year. For 2021, a minor decline is projected, and then revenues remain relatively flat in 2022. This is because most shared revenues are not affected by the current economic contraction.

	2020 Adopted	MAY Forecast	SEP Forecast	Diff.	2021 Forecast	2022 Forecast
Shared Revenues	\$1,205,849	980,650	1,133,115	(72,734)	1,181,772	1,186,111

Municipal Court Revenues

The 2020 Adopted Budget assumed \$347,000 in General Fund revenue collected from fines, forfeitures, fees, costs, and penalties associated with the enforcement of local and State law. Because Court revenues are highly dependent on caseload and the Municipal Court has been closed since March, the May forecast assumed a 35% revenue shortfall through year-end. Though the Court re-opened at the end of August, the September forecast projects a 38% revenue shortfall through the end of the year. Staff assumes the Court will earn revenues in 2021 on par with recent historical trends between 2017-2019, and in 2022 earn 2% less than the prior year.

	2020 Adopted	MAY Forecast	SEP Forecast	Diff.	2021 Forecast	2022 Forecast
Municipal Court	\$346,604	217,692	214,402	(132,202)	262,619	257,367

Miscellaneous Revenues

The 2020 Adopted Budget assumed \$223,000 in miscellaneous revenues in the General Fund. This category includes a variety of revenues. The current projection is \$90,000 above 2020 budget estimates by year-end resulting from payments for judgment settlements and disability reimbursements received in the first half of the year. These revenues were not in the 2020 adopted budget.

The September forecast projects the revenue will remain flat in 2021 and 2022.

	2020 Adopted	<i>MAY Forecast</i>	SEP Forecast	Diff.	2021 Forecast	2022 Forecast
Misc. Revenues	\$223,200	223,200	315,502	92,203	223,500	223,500

Interest Earnings

The 2020 Adopted Budget assumed \$26,000 in General Fund revenue from interest earned on the City's Law Enforcement Officer and Firefighter (LEOFF) I Long-Term Care Reserve. The City pools its cash and invests it in various instruments authorized by State law. Most of the City's cash is invested in the Washington State Local Government Investment Pool and in U.S. Treasury and Agency obligations. The City's LEOFF I reserve assumed 1.6% interest earnings in 2020. Given the recent economic contraction, the assumption was revised to align with the projected yield experienced in the Local Government Investment Pool and projects a 5% reduction from 2020 adopted budget estimates by year-end. The forecast projects the revenue stream will remain relatively flat in 2021 and 2022.

	2020 Adopted	<i>MAY Forecast</i>	SEP Forecast	Diff.	2021 Forecast	2022 Forecast
Interest Earnings	\$25,604	14,181	24,407	1,197	24,554	24,701

General Fund Expenditures

The 2020 Adopted Expenditure Budget was \$31.9 million. Should the City Council adopt budget amending ordinance 20-19, the cumulative effect of the phased cost saving measures will reduce the 2020 expenditure budget by \$3.8 million resulting in a new General Fund baseline budget of \$28.1 million.

OTHER FUND REVENUE SOURCES

The Pandemic is also impacting other City revenues outside the General Fund. The following details additional revenue streams impacted by the Pandemic and corresponding assumptions through year-end and into the next biennium.

Real Estate Excise Tax (REET)

Revenues from Real Estate Excise Tax (REET) are used to support the City's Street and Capital Improvement Funds. This is a revenue stream that is susceptible to swings in the real estate market.

Homes sold on Mercer Island in the first half of the year were keeping pace with 2019 sales. However, the current available inventory of property for sale is down 45% percent on average compared to 2019 inventory, which speaks to the high demand on a limited supply of available properties for sale. At the end of June, REET revenues were 42% of 2020 budget estimates, buoyed by the sale of the former Farmer's property in Town Center, which generated \$230,000 in April.

Given the limited inventory of properties for sale, the current projection is an 8% decrease in REET revenue at year-end. This projection is informed by the average price of homes sold in 2020 to date, the number of homes sold, and the number of homes sold in the second half of the year based on historical trends. The forecast projects a 0.5% increase in REET revenues in 2021 and a 3% increase in 2022.

	2020 Adopted	SEP Forecast	Diff.	2021 Forecast	2022 Forecast
REET	\$3,844,000	3,534,221	(309,779)	3,686,721	3,795,838

Mercer Island Thrift Shop

The 2020 Adopted Budget assumed \$1.97 million in Thrift Shop revenues, representing 65% of revenues in the Youth and Family Service (YFS) Fund. The Thrift Shop closed March 16 and is anticipated to remain closed through the end of the year.

Thrift Shop revenues are challenging to forecast given the ongoing Pandemic impacts to retail businesses and the overall uncertainty around the timing of re-opening the store. Staff are working with stakeholders on potential scenarios for a phased re-opening. Many factors play into safely and successfully re-opening the Thrift Shop – including the changing Pandemic retail business environment, questions regarding the Thrift Shop remodel and its impact on operations, and what will happen to donation volumes if the regional community decreases retail consumption.

Given the current uncertainty, and for the purposes of the September forecast, the assumption is that no revenue will be received in 2021. If services are allowed to resume sooner, the forecast will be updated, and the City Council asked to approve a budget amending ordinance. For 2022, the forecast assumes revenues equal to levels earned between 2016-2018.

	2020 Adopted	SEP Forecast	Diff.	2021 Forecast	2022 Forecast
Thrift Shop	\$1,969,320	363,619	(1,605,701)	0	1,697,434

Charges for Services

The 2020 Adopted Budget assumed \$319,000 in revenues from additional YFS services, representing 11% of YFS Fund revenues. These revenues include fees from family counseling services as well as the Mercer Island School District's \$60,000 contribution support to the school counseling program.

The forecast assumes reduced revenues based on second quarter (post-Pandemic) actuals from family counseling services through the remainder of the year and anticipates those revenues will remain flat into the next biennium.

	2020 Adopted	SEP Forecast	Diff.	2021 Forecast	2022 Forecast
Charges for Services	\$319,000	161,741	(157,259)	161,000	161,000

Donations and Miscellaneous

The 2020 Adopted Budget assumes \$354,000 in donation revenues, including those from the MIYFS Foundation, representing 12% of YFS Fund revenues. Donations include revenues earmarked for emergency assistance support, senior services, and general YFS program support. The MIYFS Foundation donation also

includes funds to support a 2020 budget amendment that restored a half-time Geriatric Specialist position within the YFS Department.

The Pandemic has greatly hindered the City's ability to fund Youth and Family Services, largely due to the closure of the Thrift Shop and limitations on re-opening retail operations safely and profitably.

In July, the City accepted \$102,600 of the MIYFS Foundation's generous one-time offer to contribute \$815,000 to the YFS Fund. The portion accepted restores some services through the end of the year. Acceptance of the remaining \$712,400 donation was deferred to support YFS services in the 2021-2022 biennium.

The September 2020 forecast assumes the City will receive donations committed through the end of the year, similar commitments in 2021 and 2022, and receipt of the \$712,400 in 2021 to support School Counseling services through the end of the 2020-2021 school year.

	2020 Adopted	SEP Forecast	Diff.	2021 Forecast	2022 Forecast
Donations and Misc.	\$362,139	455,479	93,340	1,020,400	318,000

Other YFS Fund Revenues

The 2020 Adopted Budget assumes \$445,203 in other revenues, representing 13% of YFS Fund Revenues. These include King County and Federal grant funds, as well as interest earned from the YFS Endowment. Grant funds are received upon receipt of invoices. Any unspent funds carry-over to the next fiscal year for the life of the grant.

The September forecast assumes no change to this revenue stream through year-end, and projects similar revenues in 2021 and 2022.

	2020 Adopted	SEP Forecast	Diff.	2021 Forecast	2022 Forecast
Other Revenues	\$445,203	445,203	-	446,000	446,000

Fund Balance Implications

The City's Contingency Fund is \$3,575,992 million. As part of the 2019-2020 budget process, the City Council increased the target funding level from 10% to 12.5% of General Fund budgeted expenditures. The current balance of uncommitted funds in the Contingency Fund is 11% of the adopted 2020 expenditure budget.

NEXT STEPS

This revenue forecast will form the foundation for the 2021-2022 Proposed Preliminary Budget which the City Manager will transmit to the City Council the end of September. During these uncertain times, staff is committed to closely monitoring financial data as it becomes available and will revise the forecast and notify the City Council and the community as circumstances change.

RECOMMENDATION

1. Suspend the City Council Rules of Procedure 6.3, requiring a second reading for an ordinance.
2. Adopt Ordinance No. 20-19 amending the 2019-2020 budget to memorialize Phase 3 cost saving measures.

