



# BUSINESS OF THE CITY COUNCIL CITY OF MERCER ISLAND

AB 5687  
May 5, 2020  
Regular Business

## AGENDA BILL INFORMATION

<b>TITLE:</b>	AB 5687: Financial Forecast, COVID-19 Impacts, and Cost Saving Measures	<input type="checkbox"/> Discussion Only
<b>RECOMMENDED ACTION:</b>	Appropriate \$962,168 from the Contingency Fund to support the City’s on-going COVID-19 emergency response through June 30, 2020 and provide feedback on policy considerations here forward.	<input checked="" type="checkbox"/> Action Needed: <input checked="" type="checkbox"/> Motion <input type="checkbox"/> Ordinance <input type="checkbox"/> Resolution

<b>DEPARTMENT:</b>	Finance
<b>STAFF:</b>	Matthew Mornick, Interim Finance Director
<b>COUNCIL LIAISON:</b>	
<b>EXHIBITS:</b>	<ol style="list-style-type: none"> <li>1. City Manager April 29, 2020 Memo</li> <li>2. General Fund and Youth and Family Services Fund Forecasts</li> <li>3. Summary of Staffing Changes</li> <li>4. Ordinance</li> </ol>
<b>CITY COUNCIL PRIORITY:</b>	n/a

<b>AMOUNT OF EXPENDITURE</b>	\$ n/a
<b>AMOUNT BUDGETED</b>	\$ n/a
<b>APPROPRIATION REQUESTED</b>	\$ \$962,168

## SUMMARY

### EXECUTIVE SUMMARY

Staff forecasts a \$4.3 million revenue shortfall in the General Fund and a \$1.3 million revenue shortfall in the Youth and Family Services (“YFS”) Fund through the end of 2020. This agenda bill outlines in detail the General Fund and YFS Fund financial assessment, a summary of staff actions to date, and initial policy considerations. Staff recommends the City Council receive this report, appropriate \$962,168 of contingency funds to support the City’s ongoing emergency response to the COVID-19 Pandemic and provide direction on policy considerations outlined in the “Next Steps” section of the agenda bill.

### BACKGROUND

On April 7, staff presented [AB 5676](#) to the City Council with an initial financial forecast focused on areas of the City’s budget where impacts from COVID-19 were most immediate and understood. Revenue shortfalls at year-end were projected up to \$2.5 million in the General Fund (Parks and Recreation Department and Sales Tax), and up to \$1.6 million in the YFS Fund.

Staff committed to return to Council early May with a complete General Fund and YFS Fund financial forecast and plans to address the revenue shortfalls.

Efforts to address the revenue shortfalls have been grouped in phases. Phase 1 included a focused review of the YFS Department as well as park and recreation programs and services during the end of March and early April. Phase 2 included a review of all departments and funds receiving General Fund support, apart from Special Revenue and Capital Project Funds. These Funds will be reviewed in Phase 3, along with Utility Funds and other City funds that will likely see revenue reductions as a result of the COVID-19 emergency.

Attached as Exhibit 1 is a memo provided to the City Council on April 29, 2020 by the City Manager. The memo outlines the detailed actions taken in Phase 1 and Phase 2 to address the revenue shortfalls and to ensure that essential services are maintained.

What follows is a comprehensive General Fund and YFS Fund financial assessment, a summary of staff actions to date, and initial policy considerations.

## **FINANCIAL FORECASTS**

On April 29, 2020 Governor Inslee announced the State's first steps to ease certain COVID-19 restrictions including allowing certain low-risk construction projects to resume and the partial re-opening of some outdoor recreation activities. The latest measures, along with the [comprehensive set of factors](#) guiding the State's approach to easing restrictions, have been accounted for in the April financial forecasts of General Fund and YFS Fund revenues.

Forecasting revenue impacts of the COVID-19 pandemic on the City's General Fund is particularly difficult because of the rapidity and magnitude of the economic impact. This current economic event has no precedent. The closest comparable period when national and global economic activity was brought to a near complete shutdown was following the Great Depression and leading-up to World War II.

All assumptions presented in this forecast are based on the best information available to date and subject to change pending further analysis, receipt of better financial information, analysis of year-to-date actuals, and updates on State measures to protect the general public.

It is important to note that once State orders are lifted, the long-term economic ramifications will be unclear. Staff anticipate residual economic impacts that will hinder the City's ability to swiftly return to normalcy. Further, many of the cost saving measures presented in this agenda bill have one-time costs that extend into 2020. For example, the City pays 50% of unemployment costs over a 39-week period. The City does not have an unemployment reserve. Staff and the City Council need to bear this in mind as financial impacts of the Pandemic will likely extend into 2021, with a full recovery unlikely until 2022. Staff is closely monitoring data and will provide the City Council with regular updates as often as circumstances warrant.

### **Summary of General Fund Revenue Impacts by Revenue Category**

Staff is currently forecasting a \$4.3 million revenue shortfall in the General Fund through the end of 2020 as a result of the economic contraction caused by COVID-19. This \$4.3 million figure does not include the \$700,000 expense staff referred to in [AB 5676](#) as the 27<sup>th</sup> pay period, the amount of which has likely declined given recent workforce reductions.

The following analysis walks through the underlying assumptions and anticipated impacts to revenues within the General Fund.

**Property Tax:** As Exhibit 2 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 current forecast assumes a modest 3% reduction in this revenue due to the increased potential for non-payment.

	Adopted 2020 Budget	April Forecast	Difference
<b>Property Tax</b>	\$12,717,185	12,363,273	(353,912)

**Sales Tax:** The 2020 Adopted Budget assumed \$5.1 million in Sales Tax revenue, representing 16% of total General Fund revenues. Sales tax is a revenue source susceptible to economic contractions. Between 2008 – 2010, the City’s Sales Tax revenues experienced a 22% decline. The Great Recession resulted in prolonged reductions that accumulated somewhat gradually. The current economic downturn is far more sudden.

As a result, the current forecast assumes a 20% reduction in Sales Tax at year-end. What took two years to develop during the Great Recession happened immediately in March 2020. For the remainder of 2020, the assumption is a 20% reduction in Sales Tax through the end of May, then a 13% reduction through year-end, with specific focus on business sectors most impacted by the current Pandemic, including construction, retail, and food services.

It is important to note this initial estimate is subject to change. The City has never seen a sudden and near-complete shutdown as has unfolded through the spring. Assumptions will be modified as Sales Tax revenue data becomes available (there is typically a two-month lag in reporting) and when staff has a better sense of changing economic conditions.

	Adopted 2020 Budget	April Forecast	Difference
<b>General Sales Tax</b>	\$5,098,849	4,228,902	(869,947)

**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. During the Great Recession, the City saw a 5% decrease in telephone and cellular utility tax revenues. For the purposes of this forecast, the assumption is that declines in telephone and cellular sectors will fall 5% from April through the end of 2020, resulting in an 8% decrease in revenues at year-end.

	Adopted 2020 Budget	April Forecast	Difference
<b>Utility Taxes</b>	\$4,660,869	4,271,542	(389,327)

**License, Permits, and Zoning Fees:** The 2020 Adopted Budget assumed \$3.3 million in license, permit, and zoning revenues, representing 10% of the General Fund. 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 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. CPD staff anticipate this recent downward trend to carry through 2020. Given these factors, this forecast assumes a 30% decline in permit revenues through the end of 2020, which represents a \$1.2 million shortfall at year-end.

	Adopted 2020 Budget	April Forecast	Difference
<b>License, Permits, and Zoning Fees</b>	\$3,345,634	2,109,780	(1,235,854)

**Business and Occupation Taxes:** The 2020 Adopted Budget assumed \$600,000 in business and occupation (B&O) Tax revenue, representing 2% of total General Fund revenues. The business community has been significantly impacted by the COVID-19 economic contraction. Several local businesses have shut down or sharply curtailed operations. On April 7, 2020, the City Council authorized staff to provide B&O tax extensions to quarterly filers. While this revenue stream remained relatively stable during the Great Recession, this forecast applies a 10% reduction to 2020 B&O revenues. Because this tax is based on gross receipts and annual B&O taxpayers file taxes by April 15 for the prior year, a much greater impact to B&O Tax revenues is anticipated in 2021.

	Adopted 2020 Budget	April Forecast	Difference
<b>B&amp;O Taxes</b>	\$662,171	607,137	(55,034)

**Parks and Recreation:** The 2020 Adopted Budget assumed \$1.6 million in Parks & Recreation revenues, representing 5% of total General Fund revenues. These include revenues from community center rentals, recreation programming, and park facility rentals. Revenue generating activities within the department stopped overnight mid-March, having an unprecedented impact on the Department’s operations.

This forecast assumes programming and rental activity will not resume operations until September, although this still warrants further analysis. The current forecast also assumes operations from September through the end of the year will meet 75% of projected budget goals.

	Adopted 2020 Budget	April Forecast	Difference
<b>P&amp;R Revenues</b>	\$1,592,900	581,523	(1,011,377)

**Emergency Medical Service (EMS) Revenues:** The 2020 Adopted Budget assumed \$1.4 million for this revenue stream, 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 are slated to continue, the assumption includes no change to this revenue stream.

	Adopted 2020 Budget	April Forecast	Difference
<b>EMS Revenues</b>	\$1,391,867	1,391,867	-

**Cost Allocation:** The 2020 Adopted Budget assumed \$751,000 for this revenue stream, representing 2% of total General Fund revenues. These revenue categories reflect internal transfers between funds. Because of the technical nature of these revenues, this forecast assumes no change.

	Adopted 2020 Budget	April Forecast	Difference
<b>Cost Allocation</b>	\$751,222	751,222	-

**Shared Revenues:** The 2020 Adopted Budget assumed \$1.2 million in shared/intergovernmental revenues, representing 4% of total General Fund revenues. This category includes revenues that the City receives from the State and Federal governments.

This forecast reduces a handful of State and Federal government revenues that mirror sales tax activity. These include liquor excise tax, liquor control board profits, and marijuana excise tax, among others. While liquor stores remain open, this assumes a reduction due to the closure of restaurants and bars.

However, most shared revenues were held constant through year-end given they are not affected by the current economic contraction.

	Adopted 2020 Budget	April Forecast	Difference
<b>Shared Revenues</b>	\$1,205,849	980,650	(225,199)

**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 forecast assumes a 35% revenue shortfall through year-end, which also aligns with recent workload trends from the prior year.

	Adopted 2020 Budget	April Forecast	Difference
<b>Municipal Court</b>	\$346,604	217,692	(128,912)

**Miscellaneous Revenues:** The 2020 Adopted Budget assumed \$223,000 in miscellaneous revenues in the General Fund. This category includes a variety of revenues. Staff assume no change to this revenue stream in the forecast.

	Adopted 2020 Budget	April Forecast	Difference
<b>Miscellaneous Revenues</b>	\$223,200	223,200	-

**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 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, staff revised this assumption

to align with the projected yield experienced in the first quarter of 2020 within the local government investment pool of 0.8%.

	Adopted 2020 Budget	April Forecast	Difference
<b>Interest Earnings</b>	\$25,604	14,181	(11,423)

General Fund Expenditure Forecast

In recent years, the City’s annual General Fund revenues have ended the year within roughly 98 – 99% of the budgeted levels. In adopting the 2019-2020 Biennial Budget, the City took significant steps to reduce expenditures with minimal impact to service levels. Attrition through impending retirements, limited term contract positions, and existing vacancies were factors that informed budget reductions of \$1.2 million to balance the 2019-2020 budget. Based on these steps, this forecast assumes City expenditures would end 2020 on target. **Given the revised revenue forecast presented above, however, the City cannot spend as planned when the 2019-2020 budget was adopted.**

Expenditures related to Emergency Operations

The first week of March, staff activated the City’s 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 month’s end, the activation was elevated to Level One status – the highest-level activation within the City’s emergency command system. This continued through the end of April.

From early March, staff began tracking every expenditure associated with the City’s COVID-19 emergency response. This includes emergency purchases and staff time, with demand on City resources peaking in April when nearly 40 City employees were involved at some level in the emergency response.

Although the City is still providing critical emergency response services, on May 4 the number of employees and resources will be consolidated to a Level Two activation in anticipation of a prolonged Pandemic response. Level Two activation requires fewer staff resources, while still providing a framework and the necessary resources for response and recovery planning related to the Pandemic.

Staff anticipates the EOC will remain active through the end of 2020, and potentially into 2021. Refer to Exhibit 1 for information on EOC roles and responsibilities moving forward to ensure the life, property, and public services in the Mercer Island community remain protected during the ongoing Pandemic.

One of the most critical EOC functions is tracking resources taken from the City’s General Fund to address ongoing demands related to emergency operations, as well as identifying potential State and Federal grants and reimbursement strategies to support the City’s emergency response efforts.

Because the City has been obligated to provide critical essential public services while also performing emergency operations since the first week of March, there has been a significant strain on City resources. Between staffing the EOC and acquiring critical supplies that included personal protective equipment, the City expended \$662,168 through May 1, 2020.

To address expenditures to date and continue staffing the EOC at a Level 2 activation through June 30, staff requests \$962,168 of Contingency Funding.

<b>Expenditures as of May 1, 2020</b>	
<b>Staffing Costs</b>	
2 weeks (2/22 - 3/6) at L3* operation	(12,000)
1 month (3/7 - 4/3) at L3,2,1 operation	(260,000)
1 month (4/4 - 5/1) at L1 operation	(240,000)
Total	(512,000)
<b>Supplies and Services</b>	
Actual costs through 5/1	(36,269)
Encumbered costs through 5/1**	(113,899)
Total expenditures to date \$	(662,168)
<b>Forecasts through June</b>	
<b>Staffing Levels</b>	
Estimated hours at L2 operation per month	2,000 hrs
Monthly staffing costs	140,000
Staffing costs	280,000
<b>Supplies and Services</b>	
Estimated monthly supply costs at L2 operation	10,000
Estimated monthly service costs at L2 operation	-
Supply and service costs	20,000
Total Forecasted Expenditures through July	300,000
<b>Total Contingency Fund appropriation request \$</b>	<b>962,168</b>

\* The EOC has operated at three (3) levels during the COVID-19 crisis: Level 3 (L3) – Monitoring only, Level 2 (L2) – Partial Activation, Level 1 (L1) – Full Activation.

\*\*Encumbered costs consist of third-party agreements for equipment related to the COVID-19 response. This encumbrance includes mobile phones and computer acquisition for staff working in an emergency response capacity.

Historically, local jurisdictions have been eligible for State and Federal reimbursements when a Federal disaster is declared. A normal reimbursement is shared among governmental agencies: 75% is covered by the Federal government, 12.5% by the State, with the remaining 12.5% the City's responsibility. Efforts are well underway to complete a Federal Emergency Management Agency (FEMA) public assistance application, which provides grant monies to public agencies that provide management, control, and reduction of immediate threats to public health and safety. The timeline and reimbursement amounts are still unknown.

On April 27, 2020 Governor Inslee announced nearly \$300 million from the State's federal stimulus award is being directed to local governments that did not receive direct distributions under the CARES Act. Funds will be used to cover critical expenses related to the COVID-19 Pandemic. The preliminary estimate is that the City of Mercer Island will receive \$734,000 from the State to support the COVID-19 response. This amount is not yet confirmed, and it remains unclear when these funds will become available.

### Fund Balance Implications

The City's Contingency Fund is presently \$4,212,000 million, the balance equaling 13% of the 2020 Adopted Budget General Fund expenditures. 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 in the Contingency Fund slightly exceeds Council's goal for the 2019-2020 budget by 0.5%.

With the revised revenue forecast and expenditures continuing at current levels, the City could expect to end 2020 drawing down the entire balance of the Contingency Fund. Staff does not recommend this approach. It

would put the City on an untenable trajectory early on in an unparalleled and potentially prolonged economic recession. The more prudent path is to reduce expenditures to align with anticipated revenues and carefully meter the use of contingency funds and other reserves.

**Summary of Youth and Family Services Fund Revenue Impacts**

The YFS Fund was created to account for all revenues and expenditures directly related to the YFS Department. These programs include the VOICE/SVP program, Joblink, Thrift Store operations, Community Counseling, Senior Services, Emergency Assistance, and School Mental Health Counselors. YFS is predominantly supported by Thrift Shop sales, as well as donations from the Mercer Island Youth and Family Services (MIYFS) Foundation, federal grants, and charges for services.

Current projections indicate a \$1.3 million revenue shortfall in the YFS Fund through the end of 2020 as a result of the economic contraction caused by COVID-19 Pandemic. The following analysis walks through underlying assumptions and anticipated impacts to revenues within the YFS Fund.

**Mercer Island Thrift Shop:** The 2020 Adopted Budget assumed \$1.97 million in Thrift Shop revenues, representing 65% of YFS Fund revenues. The Thrift Shop closed March 16. For the purposes of this forecast, the current assumption is no revenues in April, May, or June. A re-opening is currently projected in July, with Thrift Store operations projected to meet 50% of monthly revenue goals through year-end.

	<b>Adopted 2020 Budget</b>	<b>April Forecast</b>	<b>Difference</b>
<b>Thrift Shop Revenues</b>	1,969,320	868,638	(1,100,682)

**Charges for Services:** The 2020 Adopted Budget assumed \$319,000 in revenues from additional YFS services, representing 11% of YFS Fund revenues. These services include fees from family counseling services, the VOICE/SVP program, as well as the Mercer Island School District’s commitment in support of the school counseling program. Given current restrictions on operations related to the Stay Home, Stay Healthy Order, a decision was made to cancel the summer VOICE/SVP program. Given Phase 1 and Phase 2 cost saving measures, staff assumes significantly reduced revenues from family counseling services through the remainder of the year.

	<b>Adopted 2020 Budget</b>	<b>April Forecast</b>	<b>Difference</b>
<b>Charges for Services</b>	319,000	99,971	(219,029)

**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 includes revenues earmarked for emergency assistance support, senior services, and general YFS program support. The MIYFS Foundation donation includes funds to support a 2020 budget amendment that restored a half-time Geriatric Specialist position within the YFS Department.

The MIYFS Foundation committed to providing the City receipt of their second quarter donation and funds for the Geriatric Specialist position in May. In coordination with the MIYFS Foundation, staff assumes full receipt of donations in 2020.

	Adopted 2020 Budget	April Forecast	Difference
<b>Donations and Misc.</b>	\$354,015	354,015	-

**Other Revenues:** The 2020 Adopted Budget assumes \$393,000 in other revenues, representing 13% of YFS Fund Revenues. These include King County and Federal grant funds, as well as interest earning from the YFS Endowment. Staff assume no change to this revenue stream in the forecast.

	Adopted 2020 Budget	April Forecast	Difference
<b>Other Revenues</b>	\$393,100	393,100	-

### Youth and Family Services Expenditure Forecast Implications

Based on prior years, staff forecasts potential expenditure savings in the YFS Fund, specifically savings in the supplies budget and on expenses associated with building maintenance at the Thrift Shop, among others. The overall net impact to the YFS Fund 2020 budget is a \$1.2 million shortfall in the YFS Fund through the end of 2020 as a result of the economic contraction caused by COVID-19. The revised YFS Fund forecast presented above indicates the City cannot spend as planned in the 2019-2020 adopted budget.

Below is an outline of cost saving measures, implemented in phases to address budget shortfalls in both the YFS fund and General Fund.

### **COST SAVING MEASURES**

#### City's Response

Staff began examining ways to reduce expenditures mid-March when the magnitude of the COVID-19 Pandemic came into focus, with specific attention on the General Fund and YFS Fund. These efforts have been categorized into phases, based on how new information and financial and budgetary impacts resulting from COVID-19 has come to light.

Below is a summary of initial cost saving measures known as Phase 1. These measures were implemented the end of March into early April. A detailed recounting of these cost saving measures is recounted in Exhibit 1.

<b>PHASE 1   001 – GENERAL FUND Cost Saving Measures</b>		<b>Total</b>
Beginning General Fund budget shortfall		\$(4,300,000)
1.1 Parks and Recreation casual, contract, and seasonal labor – layoffs		200,000
1.2 Parks and Recreation hiring freeze		550,000
1.3 Vacancy savings from other General Fund departments		400,000
P1 General Fund Savings Subtotal		<b>750,000</b>
P1 Ending Balance		\$(3,150,000)

<b>PHASE 1   160 – YFS FUND Cost Saving Measures</b>		<b>Total</b>
Beginning YFS Fund budget shortfall		\$(1,300,000)
1.4 YFS dept casual, contract, and seasonal labor – layoffs		\$450,000
P1 YFS Fund Savings Subtotal		<b>450,000</b>
P1 Ending Balance		\$(850,000)

After Phase 1 cost saving measures, the remaining 2020 General Fund shortfall was projected at \$3.15 million, excluding the \$700,000 budgetary impact from the 27<sup>th</sup> pay period. A projected \$850,000 shortfall in the YFS Fund remained after Phase 1 reductions.

Once staff verified a clear and complete picture of the financial and budgetary impacts to the YFS Fund and General Fund the second week of April, staff implemented Phase 2 cost saving measures, as outlined below.

<b>PHASE 2   001 – GENERAL FUND Cost Saving Measures</b>		<b>Total</b>
Beginning General Fund budget shortfall		(3,150,000)
2.1 Parks and Recreation staffing – layoffs		1,040,000
2.2 Parks and Recreation operating reductions		421,000
2.3 Facility staffing – layoffs		146,000
2.4 Non-essential professional training and related travel reductions		50,000
2.5 Reduced utilities and maintenance services at closed City facilities		100,000
P2 General Fund Savings Subtotal		<b>1,757,000</b>
P2 Ending Balance		\$(1,393,000)

<b>PHASE 2   160 – YFS FUND Cost Saving Measures</b>		<b>Total</b>
Beginning YFS Fund budget shortfall		(850,000)
2.7 YFS staffing – layoffs (90-day versus permanent)		114,000 – 341,000
2.8 YFS staffing – furloughs (through year-end)		151,000
2.9 Other		146,000
2.10 Thrift Store staffing JUL – DEC 2020		(174,000)
P2 YFS Fund Savings Subtotal		<b>237,000 – 464,000</b>
P2 Ending Balance		\$(632,000) – (405,000)

After Phase 2 cost saving measures, the remaining 2020 General Fund shortfall is \$1.4 million, excluding the \$700,000 budgetary impact due to the 27<sup>th</sup> pay period. A budget shortfall in the YFS Fund between \$632,000 and \$405,000 remains for fiscal year 2020 after Phase 2 reductions. This calculation is up to date, and slightly different than what was reported in Exhibit 1 on April 29, 2020 due to additional analysis.

Given the projected savings outlined above, it is clear further reductions or additional resources are required to address the General Fund and YFS Fund revenue shortfalls in 2020. Other cost savings measures still under review include:

- Additional workforce reductions through layoffs, furloughs, salary reductions, etc.
- Suspending non-essential professional service contracts, particularly in the General Fund.
- Identifying potential transfers from the General Fund that could be delayed or eliminated.
- Tracking additional Federal and State resources to supplement emergency operations costs.

- Initiating discussions with labor partners to explore additional ways to close the budget gap.

### Policy Considerations

Some options under consideration involve policy decisions by the City Council. These include:

1. Implementing a furlough program for all non-represented employment positions.
2. Reducing City Hall operations to four days per week, which could be done in conjunction with a furlough program.
3. Use of the compensated absence reserve to cover one-time cash-out costs.
4. An Interfund loan between the Utility Fund and the General Fund.
5. Other scenarios, including revisiting options presented in [AB 5552](#) as part of the Management Partners assessment in 2019.

Staff would appreciate initial feedback from the City Council on these potential policy matters, with a goal of identifying those that warrant further research and follow-up.

### **NEXT STEPS**

Within five weeks the organization has undergone substantial changes. Focus has shifted to establishing new service levels given Phase 1 and Phase 2 cost saving measures and exploring other means to address the budget shortfalls from COVID-19. Changes will be ongoing.

At the May 19, 2020 City Council meeting, staff will provide the following:

- An assessment of funding tied to the capital program and Utility Funds
- Updates on cost-saving measures
- Follow-up on City Council recommended policy measures

Staff will continue to monitor General Fund revenues, as well as develop forecasts for non-General Fund revenues, and provide regular updates on the City's financial position. All this work will inform the 2021-2022 biennial budget process, slated to commence early summer.

## **RECOMMENDATION**

Staff recommends the City Council:

1. Appropriate \$962,168 from the Contingency Fund to support the City's on-going COVID-19 emergency response through June 30, 2020. Direct staff to replenish the Contingency Fund when state and federal funds related to COVID-19 are received, up to the amount appropriated.
2. Provide feedback on policy considerations.

Per Council's direction, staff will return to Council May 19 with a budget amending ordinance to appropriate Contingency Funds.