City of Tukwila

Allan Ekberg, Mayor

INFORMATIONAL MEMORANDUM

TO: **Finance Committee**

FROM: **Vicky Carlsen, Finance Director**

CC: **Mayor Ekberg**

DATE: **March 31, 2020**

SUBJECT: **Budget Impacts due to COVID-19 Pandemic**
Updated for April 27, 2020 Finance Committee

ISSUE

Financial impacts of the COVID-19 pandemic.

DISCUSSION

Staff has been working on a daily basis to evaluate and analyze the financial impacts to the City of Tukwila's budget as a result of the ongoing coronavirus pandemic. This memo is to share with the Council current thinking and potential next steps associated with this global issue.

I want to start with a shared recognition that there are difficult choices ahead as we deal with lost and delayed revenues. The organization is here to serve the Tukwila residents, businesses and broader communities and we committed to moving forward through process with our City values of Caring, Professional and Responsive at the forefront of our work. We also understand that there may be additional impacts to employees. As we approach what we hope is a new, but relatively short-term, fiscal reality we remain committed to being transparent, creative, and empathetic as we identify solutions that preserve City services and, as much as possible, as many positions that are feasible. Further, we are committed to working with our employees and labor partners in this effort.

Because there is so much uncertainty with regard to the duration of this pandemic, as well as how long businesses will be closed, a number of assumptions have been made regarding impacts to general fund revenue. As new information is received and when there is a better idea of when the pandemic will end, we will be able to better predict the full impact of this emergency.

We can partially identify revenue impacts through June. However, estimating financial impacts for the second half of the year will depend greatly on when the pandemic is over and how quickly the economy can recover. At this time, there is not enough information to predict what the second half of 2020 could look like.

That said, our assumptions are as follows:

- Non-essential Businesses will be shut down into May
- When businesses reopen, it will take some time to return to normal
- We expect very little sales tax to be remitted during March and April given the "Stay Home, Stay Healthy" order
- Property tax deadlines have been extended to June 1 for residential and commercial properties who pay property taxes themselves (property taxes paid through mortgage companies will still be required to be remitted on time). It is unknown how many taxpayers pay property taxes themselves in the City, but payment delays will affect the City's cash flows
- Uncertainty regarding utility customer payments which would impact interfund utility tax
- Sales tax revenue is received two months after it is earned. We will not know the true impacts on sales tax until May and June
- Impacts of lost and deferred revenue will create cash flow issues

Financial impacts affecting the City are broken down into two categories: Lost Revenue and Delayed Revenue.

<u>Lost Revenue</u>
This category includes revenue that will forever be lost due to businesses and programming closed down. Each month that businesses are closed will result in well over $1 million in lost revenue. With the information we have today, the following chart estimates lost revenue each month through June. March has been calculated as a partial month because systematic closures did not occur until mid-month. Other miscellaneous revenue in the last row include a myriad of other small revenue sources including interest earnings, donations, court fines, permits, licenses, etc. Again, the full impacts to March revenue will not be known until the latter part of May.

Potential Lost Revenue	March	April	May	June
Admissions Tax	66,000	85,000	97,000	75,000
Gambling Tax	-	500,000	350,000	350,000
TCC Programming	23,000	57,000	40,000	37,000
TCC Rentals	44,000	26,000	21,000	46,000
Sales Tax				
Mall	167,500	300,000	335,000	350,000
Retail (excluding Mall)	253,500	442,000	348,000	390,000
Accomodation & Food Service (excluding Mall)	39,500	70,000	75,000	82,000
Entertainment, Recreation (excluding Mall)	11,500	20,000	26,000	28,000
Other sales tax categories and other misc. rev	500,000	500,000	258,000	292,000
Total	1,105,000	2,000,000	1,550,000	1,650,000

Cumulative impact of Lost Revenue is as follows:

March only	$1,105,000
March – April	$3,105,000
March – May	$4,655,000
March – June	$6,305,000

<u>Delayed Revenue</u>
The second category includes revenue that the City will most likely receive, but at a later time, once economic activity has returned to normal. It is unknown when the delayed revenue would be received by the City.

With a high rate of unemployment caused by businesses closing, many utilities are waiving late fees and not shutting off utilities to customers until the emergency is over. We have also made the determination to not undertake either commercial or residential shut off as this time, and have suspended late fees associated with utility nonpayment. This could result in utility customers, including businesses, paying their bills late, which would result in a delay in receiving utility tax revenue.

As noted above, an extension for property tax payments has been extended to June 1st for residential and commercial property owners that pay the tax themselves.

Other reasons for revenue receipts delayed include:

- City permit counter currently closed to new permits, though still processing existing projects' permits
- Potential new businesses are not opening during this pandemic
- Businesses that are granted permission to defer tax payments without penalty

At this time, with so little information available, it is next to impossible to predict when delayed revenue could be received by the City. For now, an assumption that 30% of total monthly revenues in the delayed category will be received either later this year or next year. The assumption of 30% is only an estimate and the actual impact could be much higher, or lower.

Potential Delayed Revenue	March	April	May	June	
Utility Taxes	385,000	340,000	300,000	294,000	
Interfund Utility Taxes	130,000	650,000	130,000	150,000	
Property Taxes	-	250,000	200,000	-	
Permit Activity	220,000	460,000	280,000	247,000	
Business Licenses, State Entitlements	75,000	33,000	21,000	68,000	
Other misc. revenue categories	500,000	500,000	500,000	500,000	
	1,310,000	2,233,000	1,431,000	1,259,000	
	March	April	May	June	Totals
10% delayed	131,000	223,300	143,100	125,900	623,300
20% delayed	262,000	446,600	286,200	251,800	1,246,600
30% delayed	393,000	669,900	429,300	377,700	1,869,900
Totals	786,000	1,339,800	858,600	755,400	3,739,800

Cumulative impact of Delayed Revenue is as follows:

March only	$393,000
March – April	$1,062,900
March – May	$1,492,200
March – June	$1,839,900

To summarize, the financial impacts due to COVID-19 is as follows. Please recognize, information changes on a daily basis. As new information becomes available, the assumptions and projections will be updated.

	March	April	May	June	Totals
Lost	1,105,000	2,000,000	1,550,000	1,650,000	6,305,000
Delayed	393,000	669,900	429,300	377,700	1,869,900
Totals	1,498,000	2,669,900	1,979,300	2,027,700	8,174,900
Cumulative					
March	1,498,000				
March - April	4,167,900				
March - May	6,147,200				
March - June	8,174,900				

Based on businesses closed into the first part of May and the assumption that it will take time for the economy to return to normal, the funding gap to close would be $6.1 million using the March through May assumptions. It should be noted that this gap is roughly equal to 10% of the City's annual general fund.

<u>Adjust General Fund Expenditures Based on Revenue Assumptions</u>

An effective way to reduce general fund expenditures would be to implement changes in three phases: immediate changes, near-term changes, and changes that can be implemented as better information becomes available and/or the longer the pandemic lasts.

Immediate: Immediate changes that have already been implemented include the following:

Hiring freeze for all currently vacant positions (annual savings)	$1,600,000
All travel cancelled, no non-essential training (unspent balance)	$140,000
Furlough all part-time, temporary extra labor (excluding unemployment)	$150,000
No overtime unless authorized by Mayor	$910,000
No transfers to capital project funds	$1,200,000
Total immediate savings	$4,000,000

After implementing the measures above, it is anticipated that two-thirds of the gap will be closed, leaving a remaining gap of $2.1 million. All departments are being required to immediately scrub their budgets and identify all other cost savings from programs that could be delayed until 2021 or eliminated altogether. Department reductions must be in excess of the reductions already listed above and may not include expenditures that are revenue backed. We expect to have that information back next week.

In addition, staff is investigating a number of other opportunities to identify $2.1M in savings, knowing that there may be additional savings needed should the duration of this emergency go longer, therefore requiring making up for additional lost revenues above $6.1M. While not all of these may come to fruition for a variety of reasons, we are also currently:

- Identifying potential additional transfers from the general fund that could be delayed or eliminated
- Reviewing the Fleet Fund to determine if there is additional capacity there that could be used as a partial one-time, short term stop-gap measure, and what the implications of such a decision would be
- Fully scrubbing our contingency and reserve funds to determine if there are additional funds over the mandated policy amounts that could be used
- Initiating the discussion with our labor partners to identify if any of the following can help close the budget gap: voluntary retirements, voluntary leave without pay for staff that choose this option, additional potential furloughs, reduction in hours, reduction in pay or potential layoffs, and seeking labor's own ideas to fill in the gap

We have been soliciting ideas from staff on other areas for reductions and, as usual, are impressed by the many varied ideas that have come from our employees that serve our City. It is clear that they understand the serious nature of the financial issues we are facing and want to be a part of the solution. In addition, there is a clear ethic of teamwork permeating through the different ideas. As you know, no impacts to wages, benefits or working conditions can be implemented without bargaining such impacts in advance with our labor partners.

Our commitment is to continue to keep you informed of any changes as we progress through these difficult times. Once we have a better idea of a final recommendation to close the current $2.1M we will work with you, as well as the staff, to implement any additional changes. In the meantime, please do not hesitate to reach out to me directly.

New Information for April 13, 2020 Finance Committee

The intent of this memo is to prepare the City Council to make informed policy and budget decisions regarding the financial impacts of the COVID-19 pandemic.. Decisions will need to be made this year for the 2020 budget. As this is a budget year, decisions for the next biennium can be made through the normal budget process this summer.

The COVID-19 pandemic is causing unprecedented financial impacts world-wide and the full extent of these impacts will not be known for months. However, we do know several key factors:

- Initial U.S. unemployment claims are significantly higher than during the Great Recession. The graph below is from the April 4, 2020 CV-19 Track No. 4, published by the King County Office of Economic and Financial Analysis. The line at the far right side of the graph is not the border, but the number of claims between March 22, 2020 and March 28, 2020;

- King County unemployment claims totaled 47,333 for the week of March 29, 2020 through April 4, 2020;
- Statewide, businesses have the option to file, and pay, excise tax returns later than the normal due date. This will impact the City's ability to forecast revenue as well as cash flow for the next several months;
- The City has received requests from businesses for an extension to file tax returns later than the current due date. City Council will be asked to approve temporary emergency policies that will formally grant businesses an extension.

In order to understand, and develop a plan to address the financial impacts due to the COVID-19 pandemic, three models have been developed. The models have been developed using information available the week of April 6, 2020 and are subject to change as new information becomes available. All models consider revenue losses and include immediate expenditure reductions listed in the chart at the bottom of page 4 above as well as additional reductions identified by department totaling $1.8 million for a grand total expenditure reduction of $6.2 million.

The City has already taken several steps to address the financial impacts of the pandemic. The city immediately implemented several cost savings measures.

- Hiring freeze on all existing vacant positions. Positions will be filled only by approval of the Mayor, as deemed necessary. If all positions listed below are frozen for the remainder of 2020, total savings would be roughly $1.6 million in salaries plus benefits. Total projected savings will change as other positions become vacant due to retirements and/or if some of the positions listed below are filled. Currently vacant positions by department are as follows on the next page:

  - Community Development: senior planner, building inspector III, associate planner, plans examiner
  - Fire: emergency management specialist, admin support technician – Note: Firefighter personnel positions currently in the hiring process will continue.
  - Police: community policing coordinator, evidence technician, police officer (3), master police officer (3) – Note: Police are authorized to continually actively recruit and hire new police officers to fill these vacant positions. Due to the time involved in this process and further retirements, it is assumed that not all of these positions will be able to be filled in 2020.
  - Public Works: engineer, facilities maintenance technician
  - Street: maintenance & operations specialist
  - TIS: information technology specialist
- All travel and non-essential training canceled for the remainder of the year. Total savings is estimated to be $140 thousand.
- Furlough all extra labor and part-time staff. Net savings, after considering unemployment costs, could be as much as $150 thousand but only if all extra labor and part-time positions remain vacant for the remainder of 2020.
- Remove transfers of $1.2 million from the general fund to capital project funds. This will impact capital projects in residential street, arterial street, and the general government improvement funds. Further discussion on what capital projects would be impacted will be held at a later Finance Committee meeting.
- No overtime unless authorized by the Mayor could result in a savings of up to $910 thousand. This affects all departments including Police and Fire.

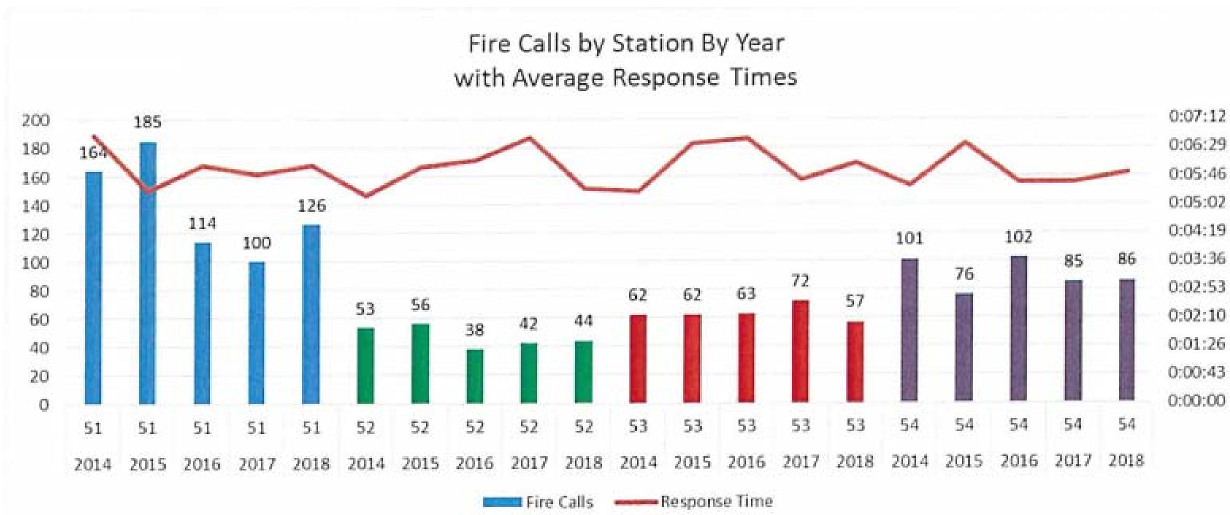
All departments have been asked to identify additional expenditure reductions. To date, departments have identified an additional $1.8 million in savings.

In addition to the steps highlighted above, the City also established a budget ideas email address for employees to submit budget reduction suggestions. A cross-departmental group is being put together to review all suggestions and provide Administration with recommendations on which suggestions should be implemented. These suggestion will be vetted with the unions, and unions are being asked to come with budget ideas, as well.

Fire department overtime: During 2019, the Finance Committee spent considerable time reviewing several aspects of fire department operations in order to understand why the fire department is consistently over budget. Per the informational memo dated May 22, 2019 and most recently reviewed by the Finance Committee on October 28, 2019, one option to keep the fire department within budget was to significantly decrease use of overtime to fill staffing when additional firefighters call in sick leave. Station 52 had the least amount of fire calls the last 5 years and would be the station affected with this change. The temporary impact would be to staff an aid car instead of an engine at this station, as warranted based on available staffing.

At the April 13, 2020 Finance Committee meeting, the following question was asked: Are firefighters moved among stations when faced with minimum staffing so that it is always Fire Station 52 that affected by placing the aid car in service in place of an engine? Per Chief Wittwer, personnel shift between stations as needed. Fire Station 52 would be the station where the aid car will be placed in service.

Effective April 1, 2020, this option was implemented and is estimated to save $250 thousand in overtime over the course of the year. It should be noted that Fire Station 54's response time to the neighborhood around Fire Station 52 is very quick and within our adopted goals for response times for the Tukwila community. Fire Station 54 responds to the Old Hill neighborhood often, particularly when Fire Station 52 personnel are at trainings or covering a different area of the City for a variety of reasons.



The current prediction is that the economic recovery from the pandemic would not be complete until 3rd or 4th quarter of 2021, a full 18 months to return to a pre-pandemic economy. Unemployment levels, sustainability of businesses, and how the State and County plan to ease social distancing restrictions are considered in the models.

Timeline through April 15, 2020

The timeline ~~below~~ at the top of the next page highlights select significant events that have occurred in the State as well as King County. The time period covered is 38 days and begins on February 29, 2020 with the first known COVID-19 related death in the State through April 6, 2020 when schools across the State were ordered closed for the remainder of the academic year.

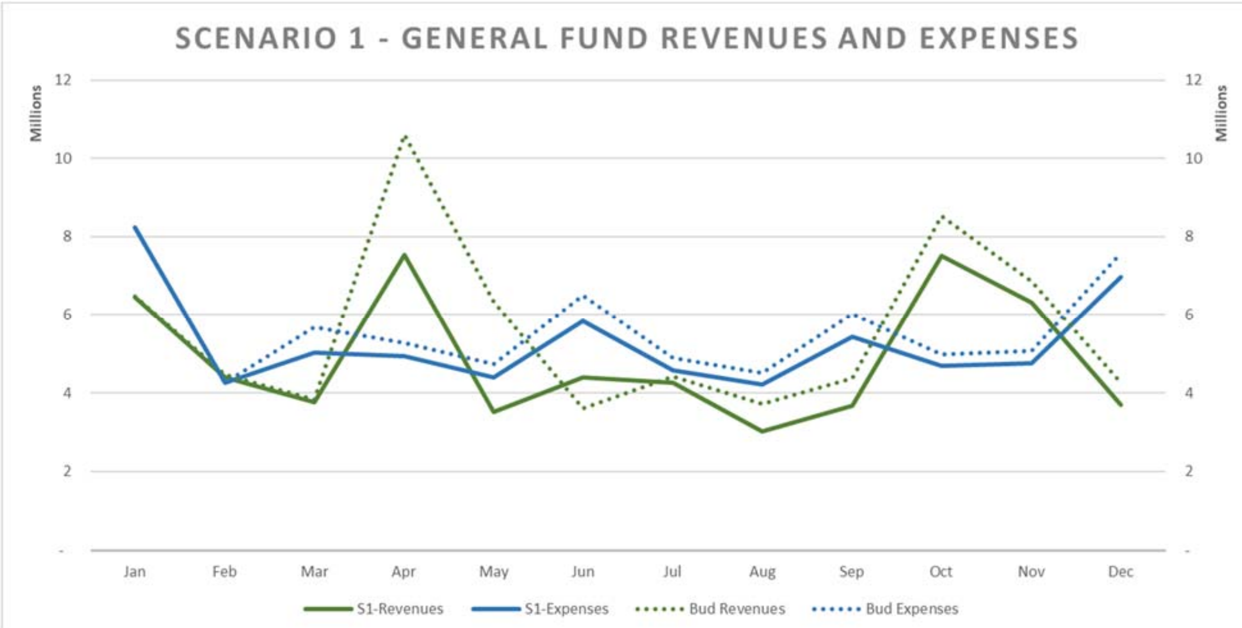
Timeline of Select COVID-19 Related Events								
February 29	**March 2**	**March 11**	**March 13**	**March 16**	**March 17**	**March 23**	**April 2**	**April 6**
First known COVID-19 death in WA State Governor issues state of emergency	Companies begin encouraging employees to work from home Some schools across state close for a few days	Governor bans gatherings of 250 or more in King, Pierce, and Snohomish counties	Governor extends ban of gatherings of 250 or more across State Schools closed for 6 weeks	Closure of all restaurants, bars, entertainment, and recreational facilities Limits large group gatherings through March 31	Governor bans gatherings of groups larger than 50 people	Governor issues 'stay at home' order for 2 weeks	Stay at home order extended through May 4	Schools ordered closed for remainder of academic year
*** 38 days in the timeline ***								

Scenario 1 – Stay At Home Ends May 4:

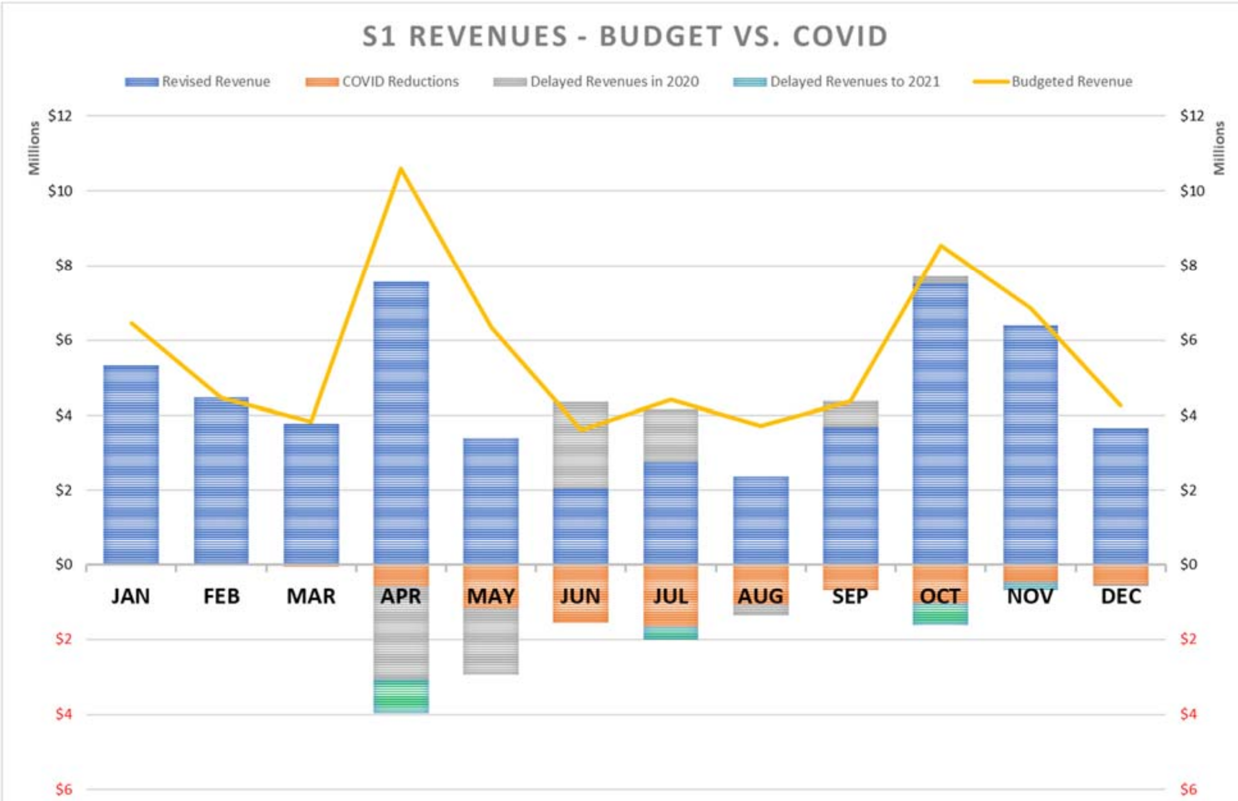
- Stay at home order does not extend beyond May 4, 2020 and allows for gatherings of up to 100 individuals through the summer months and all restrictions lifted by September.
- Sales tax, along with admissions, and gambling taxes will be significantly impacted through May but will begin to grow in June.
- Due to increases in unemployment benefits, consumer demand could fuel sales growth back to 80% of pre-pandemic sales by the end of the year.
- We expect minimal defaults on property tax payments but there would be a cash flow issue.
- Casinos could experience half the demand through summer and back to 80% by the end of the year.
- Admission tax could remain low through summer and return to 80% of prior year by the end of the year.
- During the closure order, utility tax revenue could be 20% below normal and returning to normal levels in the fall.
- Programming revenue from the Tukwila Community Center will begin to provide some programming during the summer and fully open by September.

Under Scenario 1, the City would need to identify ways to close an additional gap of $2.4 million.

Scenario 1 - The "Stay at Home" order not extended past May 4th and allows gatherings of up to 100 individuals through the summer months and all restrictions lifted by September.			
GENERAL FUND SUMMARY	**PROJECTED BUDGET**	**2020 COVID REDUCTIONS**	**COVID REDUCED BUDGET**
REVENUES	67,475,493	(8,602,709)	58,872,784
SALARIES AND BENEFITS	44,958,702	(3,081,520)	41,877,182
SUPPLIES AND PROF SERVICES	22,762,577	(3,136,432)	19,626,145
TOTAL EXPENSES	**67,721,279**	**(6,217,952)**	**61,503,327**
OVER/(UNDER) FUNDED	**(245,786)**	**(2,384,758)**	**(2,630,544)**



~~Below~~ On the next page is a graph for Scenario 1 that shows the 2020 budget for revenue along with the revised revenue projections based on lost as well as delayed revenue. The yellow line indicates the 2020 revenue budget, by month. The blue section in each bar indicates the adjusted revenue budget after taking into consideration both lost and delayed revenue. The orange section of each bar indicates lost revenue, while the gray and green sections indicate delayed revenue; gray is revenue delayed but projected to be received later in 2020 while green is projected to be received in 2021.

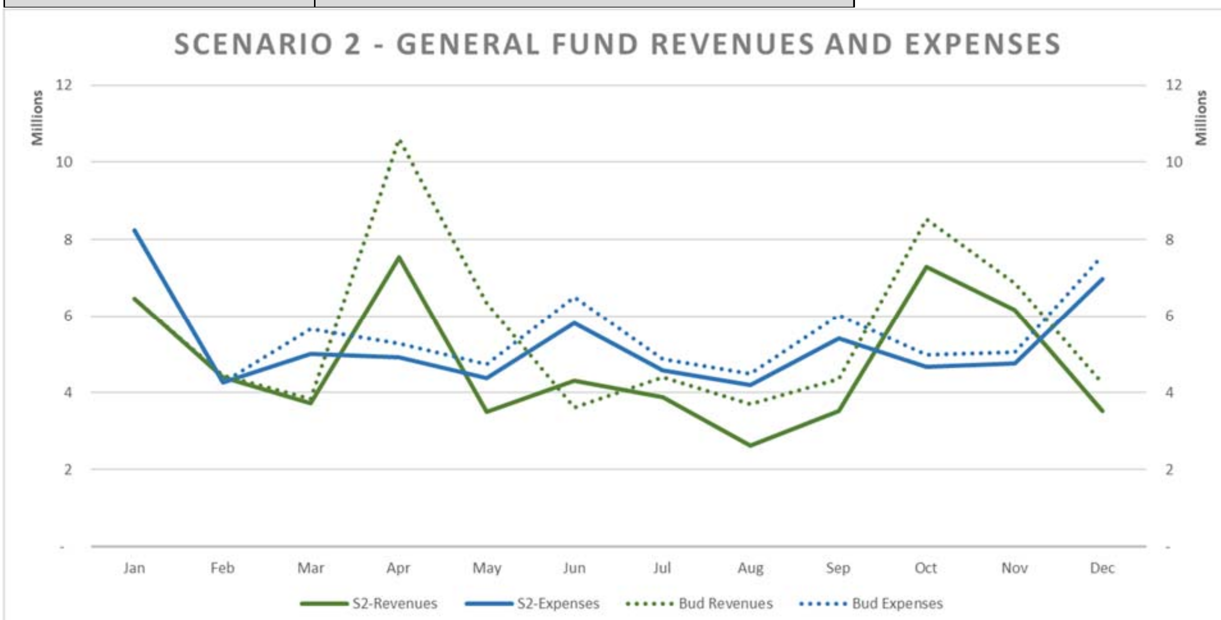


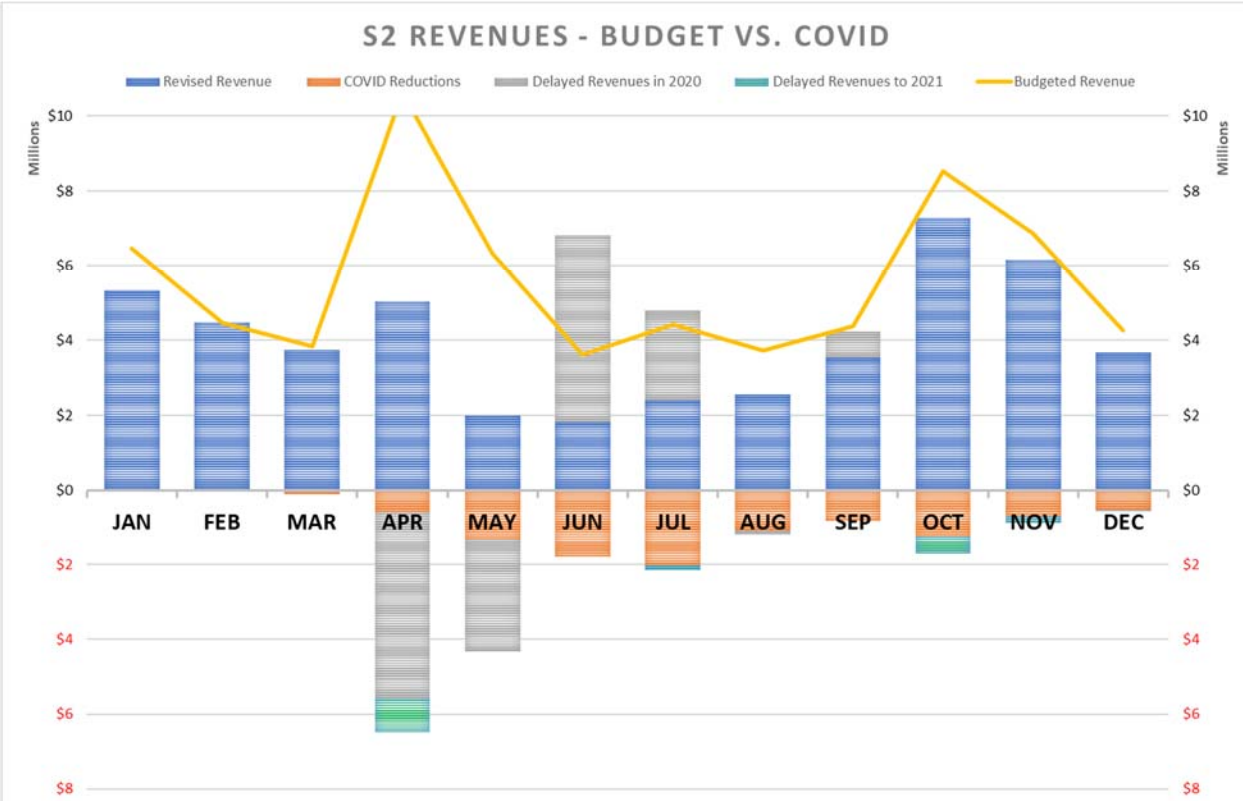
Scenario 2 - Stay at Home Extended into June:

- Stay at home order extends by an additional month, through June 4, 2020 and allows for gatherings of up to 100 individuals through the summer months and all restrictions lifted by September.
- Any extension on the stay at home order will most likely result in more businesses going out of business.
- Sales tax, along with admissions, and gambling taxes will be significantly impacted through June but will begin to grow in June.
- Due to increases in unemployment benefits, consumer demand could fuel sales growth back to 70% of pre-pandemic sales by the end of the year.
- We would still expect minimal defaults on property tax payments but there would be a cash flow issue.
- Casinos could experience half the demand through summer and into fall and back to 60% by the end of the year.
- Admission tax will remain low through summer and return to 70% of prior year by the end of the year.
- During the closure order, utility tax revenue could be 20% below normal and returning to normal levels in the fall.
- Programming revenue from the Tukwila Community Center will begin to provide some programming during the summer and fully open by October.

With Scenario 2, the City would need to close an additional gap of $4.3 million.

Scenario 2 - The "Stay at Home" order is extended until May 31st and allows for gatherings of up to 100 individuals through the summer months and all restrictions lifted by September			
GENERAL FUND SUMMARY	**BUDGET**	**2020 COVID REDUCTIONS**	**COVID REDUCED BUDGET**
REVENUES	67,475,493	(10,473,648)	57,001,845
SALARIES AND BENEFITS	44,958,702	(3,081,520)	41,877,182
SUPPLIES AND PROF SERVICES	22,762,577	(3,136,432)	19,626,145
TOTAL EXPENSES	**67,721,279**	**(6,217,952)**	**61,503,327**
OVER/(UNDER) FUNDED	**(245,786)**	**(4,255,696)**	**(4,501,482)**



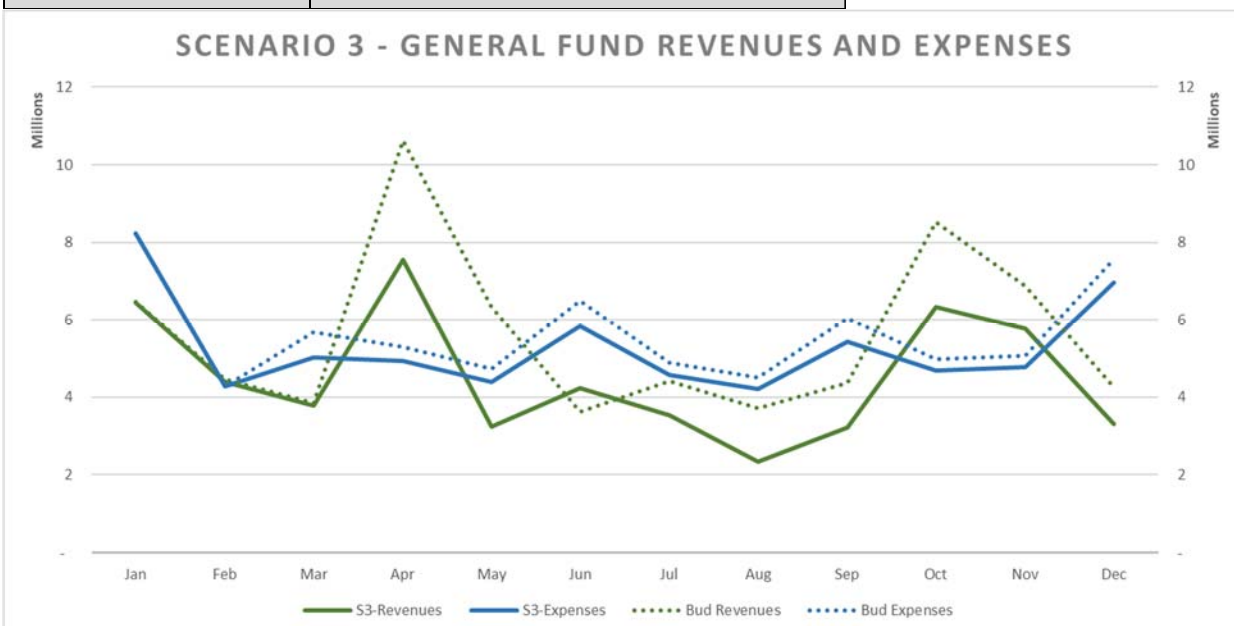


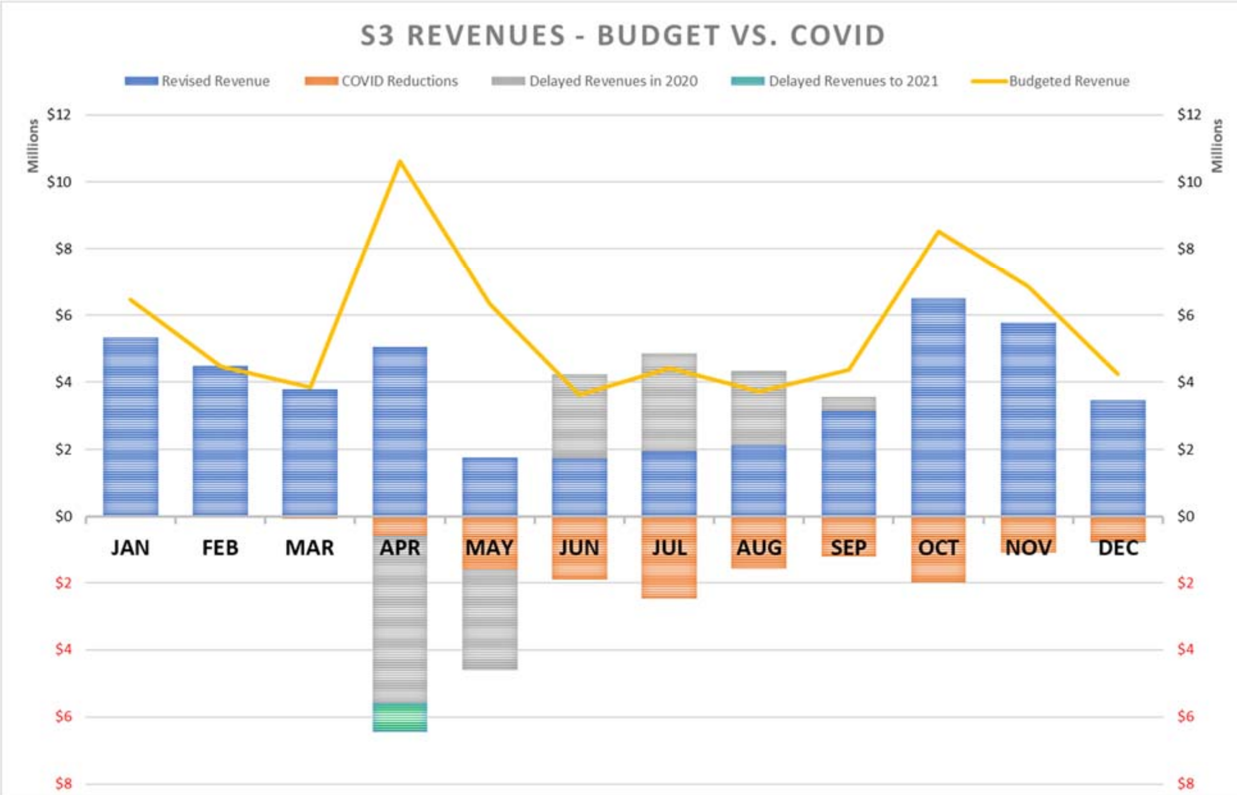
Scenario 3 – Stay at Home Order Extended into July:

- Stay at home order extends by an additional month, through July 4, 2020 and allows for gatherings of up to 50 individuals through the summer months and additional restrictions lifted by Fall with full restrictions lifted by end of the year.
- The assumption is restrictions would last longer in order to stave off a second wave of infection.
- Any extension on the stay at home order will most likely result in even more businesses going out of business.
- Sales tax, along with admissions, and gambling taxes will be significantly impacted through the end of August but will begin to grow in September.
- Due to increases in unemployment benefits, consumer demand might fuel sales growth back to 60% of pre-pandemic sales by the end of the year.
- We would still expect minimal defaults on property tax payments but there would be a cash flow issue.
- Due to the length of restrictions with this scenario, casinos would not open in 2020.
- Admission tax will remain low through summer and return to 60% of prior year by the end of the year.
- During the closure order, utility tax revenue could be 20% below normal and returning to normal levels in the fall.
- Programming revenue from the Tukwila Community Center will begin to provide some programming during the summer but not return to normal in 2020.

With Scenario 3, the City would need to close an additional gap of $7.1 million.

Scenario 3 - The "Stay at Home" order is extended until July 4th and allows for gatherings of up to 50 individuals through the summer months and additional restrictions lifted by Fall will full restrictions			
GENERAL FUND SUMMARY	**BUDGET**	**2020 COVID REDUCTIONS**	**COVID REDUCED BUDGET**
REVENUES	67,475,493	(13,305,252)	54,170,241
SALARIES AND BENEFITS	44,958,702	(3,081,520)	41,877,182
SUPPLIES AND PROF SERVICES	22,762,577	(3,136,432)	19,626,145
TOTAL EXPENSES	**67,721,279**	**(6,217,952)**	**61,503,327**
OVER/(UNDER) FUNDED	**(245,786)**	**(7,087,300)**	**(7,333,086)**





A summary of the 3 scenarios are as follows:

Initial assumption	$6.1 million in lost revenues in 2020
Scenario 1	Additional $2.4 million for a total of $8.5 million
Scenario 2	Additional $4.3 million for a total of $10.5 million
Scenario 3	Additional $7.1 million for a total of $13.3 million

Also included is a summary of the assumptions for each scenario (revised for 4/27/20):

Assumption	Scenario 1	Scenario 2	Scenario 3
Basis	Stay at home order does not extend beyond May 4, 2020 and allows for gatherings of up to 100 individuals through the summer months and all restrictions lifted by September.	Stay at home order extends by an additional month, through June 4, 2020 and allows for gatherings of up to 100 individuals through the summer months and all restrictions lifted by September. Any extension on the stay at home order will most likely result in more businesses going out of business.	Stay at home order extends by an additional month, through July 4, 2020 and allows for gatherings of up to 50 individuals through the summer months and additional restrictions lifted by Fall with full restrictions lifted by end of the year. The assumption is restrictions would last longer in order to stave off a second wave of infection. Any extension on the stay at home order will most likely result in even more businesses going out of business.
Sales and Other Taxes	Sales tax, along with admissions, and gambling taxes will be significantly impacted through May but will begin to grow in June.	Sales tax, along with admissions, and gambling taxes will be significantly impacted through June but will begin to grow in June.	Sales tax, along with admissions, and gambling taxes will be significantly impacted through the end of August but will begin to grow in September.
Adopted Budget: $20,600,686	*Revised Budget: $14,541,497* *Reduction of $6,059,179*	*Revised Budget: $13,689,699* *Reduction of $6,910,977*	*Revised Budget: $11,660,178* *Reduction of $8,940,498*
Unemployment	Due to increases in unemployment benefits, consumer demand could fuel sales growth back to 80% of pre-pandemic sales by the end of the year	Due to increases in unemployment benefits, consumer demand could fuel sales growth back to 70% of pre-pandemic sales by the end of the year.	Due to increases in unemployment benefits, consumer demand might fuel sales growth back to 60% of pre-pandemic sales by the end of the year
Property Taxes	We expect minimal defaults on property tax payments but there would be a cash flow issue.	We would still expect minimal defaults on property tax payments but there would be a cash flow issue.	We would still expect minimal defaults on property tax payments but there would be a cash flow issue
Adopted Budget: $16,416,911	No projected reduction in budget	No projected reduction in budget	No projected reduction in budget
Casinos	Casinos could experience half the demand through summer and back to 80% by the end of the year.	Casinos could experience half the demand through summer and into fall and back to 60% by the end of the year.	Due to the length of restrictions with this scenario, casinos would not open in 2020.
Adopted Budget: $4,274,000	*Revised Budget: $2,927,106* *Reduction of $1,346,894*	*Revised Budget: $2,530,205* *Reduction of $1,743,795*	*Revised Budget: $1,755,057* *Reduction of $2,518,943*
Admission Tax	Admission tax could remain low through summer and return to 80% of prior year by the end of the year.	Admission tax will remain low through summer and return to 70% of prior year by the end of the year.	Admission tax will remain low through summer and return to 60% of prior year by the end of the year.
Adopted Budget: $870,000	*Revised Budget: $589,548* *Reduction of $280,452*	*Revised Budget: $518,274* *Reduction of $351,726*	*Revised Budget: $495,910* *Reduction of $374,090*
Utility Tax	During the closure order, utility tax revenue could be 20% below normal and returning to normal levels in the fall.	During the closure order, utility tax revenue could be 20% below normal and returning to normal levels in the fall.	During the closure order, utility tax revenue could be 20% below normal and returning to normal levels in the fall.
Adopted Budget: $6,818,610	*Revised Budget: $5,990,250* *Reduction of $828,360*	*Revised Budget: $5,894,713* *Reduction of $923,897*	*Revised Budget: $5,788,825* *Reduction of $1,029,785*
Culture and Recreation	Programming revenue from the Tukwila Community Center will begin to provide some programming during the summer and fully open by September.	Programming revenue from the Tukwila Community Center will begin to provide some programming during the summer and fully open by October.	Programming revenue from the Tukwila Community Center will begin to provide some programming during the summer but not return to normal in 2020.
Adopted Budget: $601,000	*Revised Budget: $380,138* *Reduction of $220,862*	*Revised Budget: $357,569* *Reduction of $243,431*	*Revised Budget: $318,243* *Reduction of $282,757*

Because it is currently expected that a COVID related recession will last through 2021, there will be impacts to the next biennial budget. The City should expect a reduced base of at least $4 million in revenue in 2021 which means that ***ongoing*** savings will be needed to maintain the budget for the next biennium.

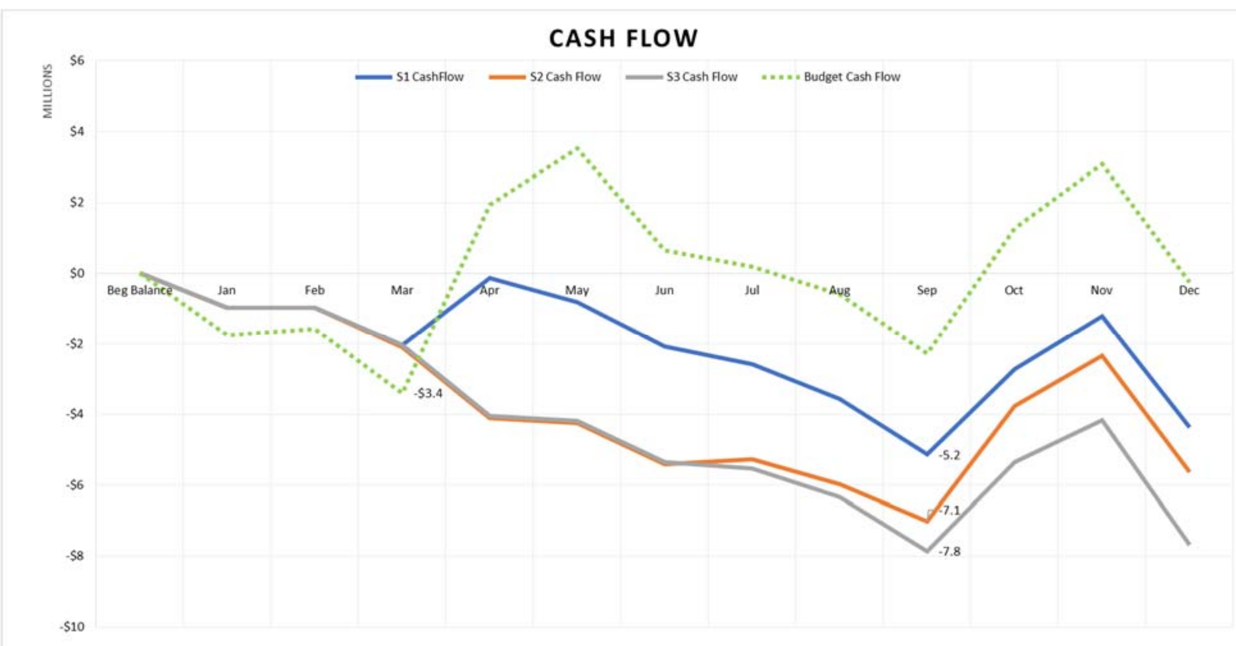
Cash Flow

Loss of revenue without an equal offset in expenditure reduction will result in an impact to cash flows. The chart below demonstrates the impacts to cash flow for each of the 3 scenarios modeled as well as cash flow for the current budget; revenue received by the City each month less payment of expenditures each month.

As indicated in the chart below, if the general fund began the year at zero (no cash in the bank), the general fund would end the year at very close to zero. However, during the year, the general fund would have a cash deficit of $3.4 million in April and a cash deficit of $2.3 million in October. Approximately $3.4 million in reserves are currently used for cash flow purposes in April and October, shortly before the City receives property tax revenue.

As each of the 3 scenarios indicate, without reducing expenditures above what has already been identified, the need for cash on hand throughout the year increases. Scenario 1 would require maintaining a minimum contingency fund reserve of $5.2 million in order to cover expenditures, while Scenario 3, the worst case, would require a minimum contingency fund reserve of at least $7.8 million at year-end to maintain a positive cash balance. Minimum contingency fund reserves are summarized as follows:

Current budget	$3.4 million required to maintain positive cash flow
Scenario 1	$5.2 million required to maintain positive cash flow
Scenario 2	$7.1 million required to maintain positive cash flow
Scenario 3	$7.8 million required to maintain positive cash flow



Financial Reserve Policy – General Fund and Contingency Fund
The City adopted a reserve policy that was most recently amended by Resolution 1919, adopted by Council on November 20, 2017. The policy states that the general fund unassigned fund balance shall equal or exceed 18% and the contingency fund reserve

balance shall equal or exceed 10% of previous year general fund revenue, exclusive of significant non-operating, non-recurring revenues such as real estate sales or transfers from other funds. The policy also requires a one-time revenue reserve that will be maintained in the contingency fund. The one-time revenue reserve shall be credited annually with 10% of the prior year one-time revenues to the extent general fund surplus for the year is sufficient to cover the reserve funding. A copy of the resolution is included as an attachment to this memo.

The policy also states that any draw down of minimum balances shall occur only upon recommendation of City Administration and approval by City Council through a resolution. Should a draw down occur, the City Administration shall establish a plan, no later than the end of the fiscal year following the decline, to restore the fund balance to the prescribed minimum level. The plan shall be presented to and approved by the City Council.

Per Government Finance Officers Association (GFOA), a national organization representing public finance professionals throughout the United States and Canada and, among other functions, provides best practice guidance on all aspects of government finance functions. For minimum unassigned general fund balances, GFOA recommends, "at a minimum, that general-purpose governments, regardless of size, maintain unrestricted budgetary fund balance in their general fund of no less than two months of regular general fund operating revenues or regular general fund operating expenditures." Other considerations include:

- Vulnerability to natural disasters;
- Dependency on volatile revenue sources, in our case, sales tax;
- The predictability of its revenues and the volatility of its expenditures (i.e., higher levels of unrestricted fund balance may be needed if significant revenue sources are subject to unpredictable fluctuations or if operating expenditures are highly volatile);
- Perceived exposure to significant one-time outlays (e.g., disasters, immediate capital needs, state budget cuts);
- The potential drain upon general fund resources from other funds, as well as the availability of resources in other funds;
- The potential impact on the entity's bond ratings and the corresponding increased cost of borrowed funds

Additional best practices include the following:

- Define the time period within which and contingencies for which fund balances will be used;
- Describe how the government's expenditure and/or revenue levels will be adjusted to match any new economic realities that are behind the use of fund balance as a financing bridge;
- Describe the time period over which the components of fund balance will be replenished and the means by which they will be replenished;
- Governments should seek to replenish reserves within one to three years of use.

Parameters for using unassigned general fund balance and contingency fund reserves should include the following:

- Are one time in nature. Once they are used, they are gone unless replenished via a repayment plan.
- Some reserves must be maintained for cash flow purposes. The amount maintained is determined by the lowest balance during the fiscal year. (As noted above in the cash flow section, with each worsening scenario, the amount of reserves required to maintain a positive cash flow increase.
- Funds can be used for short-term downturns/losses but any use of the funds must be repaid within a reasonable timeframe.
- Funds used for longer-term downturns should be a stop-gap only and a long-term, sustainable solution must be identified and implemented.
- It should be noted that the draft general fund unassigned fund balance as of December 31, 2019 meets best practice guidelines of maintaining a minimum two months of general fund expenditures.

Current reserves are as follows (draft until 2019 is officially closed):

**General fund unassigned fund balance	$12,476,158
Contingency fund	$6,402,392
One-time revenue reserve	$699,586
Total reserves	$19,578,136

** Exceeds required unassigned fund balance by $951,851

New Information for April 27, 2020 Finance Committee

Financial Reserve Policy – Enterprise Funds

The Reserve Policy also includes requirements for enterprise funds. Per the policy, the unrestricted balances of the enterprise funds shall equal or exceed 20% of the previous year revenue, exclusive of the effects of GASB Statement 68, as well as significant non-operating, non-recurring revenues such as real estate sales, transfers in from other funds, or debt proceeds.

Parameters for unrestricted balances in excess of required reserves include the following:

- Enterprise funds cannot subsidize the general fund. Any enterprise funds utilized for general fund purposes would need to be via an interfund loan that would be required to be repaid, with interest, within a reasonable timeframe.
- Reserves above the required 20% should be retained for planned and/or required capital projects adopted in the Capital Improvement Plan.

The chart below details the draft ending unrestricted fund balance as of December 31, 2019 and includes the required reserve as well as a high-level calculation of the impact to ending fund balance after taking into consideration capital projects that are included in the Capital Improvement Program through 2024, adopted by City Council via Resolution No. 1953 on December 3, 2018.

The net effect on unrestricted (ending) fund balance includes the total cost of capital projects through 2024 less any dedicated revenue (grants, King County Flood Control, etc.) and operating revenue utilized to complete the projects. The figures below are high-level only and do not take into consideration loss of revenue in 2020 because businesses are currently closed or possible rate increases in future years. As information becomes available regarding lost revenue during the shutdown, the chart can be updated.

	12/31/2019 Unrestricted Fund Balance *	20% of 2018 Revenue	Policy Compliance	Net Effect of Capital Projects on Fund Balance	Estimated Net Unrestricted Fund Balance 12/31/2024
401 - Water	7,484,856	1,425,806	Y	(5,900,000)	159,050
402 - Sewer	13,606,550	2,174,173	Y	2,020,000	13,452,377
412 - Surface Water	5,423,776	1,423,961	Y	(126,000)	3,873,814

*Adjusted for removal of the effects of GASB Statement 68

Unemployment

The City of Tukwila is a ‘reimbursable employer’ as are many government agencies in Washington State. This means that the City does not pay a monthly unemployment premium like we do with Industrial Insurance. Rather, when a former employee is receives unemployment, Employment Security Department (ESD) will pay the unemployment claim to the former employee then bill the City for those costs.

Given the current COVID-19 pandemic and changes in unemployment regulations at both the Federal and State levels, unemployment rules have changed quite a bit and could continue to evolve. The Federal stimulus in the recently enacted CARES Act created Pandemic Unemployment Assistance (PUA) for businesses and workers affected by COVID-19.

Key changes in unemployment due to the pandemic include the following:

- Eligibility for unemployment benefits is expanded to include many Washington employees who would normally not qualify for unemployment including many self-employed individuals and those that do not have the typically required 680 hours to claim unemployment.
- An additional $600 per week is available to nearly everyone on unemployment from March 29, 2020 through the week ending July 25, 2020.
- Benefits extended by 13 weeks, for a maximum of 39 (which is about 9 months). This includes individuals who were already on unemployment as well as those who are newly eligible.

Benefits to employees that are laid off or furloughed: Employees eligible to file for unemployment due to COVID-19 staffing reductions would receive a weekly benefit amount of between $188 and $790 from Washington State Unemployment. All employees receiving unemployment could receive an additional $600 per week from the CARES Act. Given the additional $600 provided under the CARES Act, some employees, mostly part-time staff, *could* receive more money through unemployment benefits than if they continued to receive a regular paycheck.

Costs incurred by the City: As previously stated, reimbursable employers are required to pay 100% of unemployment costs. However, during this national emergency, the federal government is offering some relief to reimbursable employers:

- If an employee's hours were reduced or eliminated to follow public health recommendations, the federal government should pay 50% of the unemployment charges.
- Workers at these government agencies are eligible for the Federal Pandemic Unemployment Compensation supplement of $600 per week.

It is probable that unemployment costs associated with any employee that was furloughed or laid off because reduced/eliminated work hours to follow public health recommendations would be reimbursed at 50%. This would most likely include part-time staff hired in the Parks and Recreation departments. Programs were shut down because social distancing could not be adequately maintained.

However, reductions in full-time staff would be because of a loss of revenue, not because of the need to follow public health recommendations. While still unclear, it is highly unlikely that these unemployment costs would be reimbursed and the full unemployment cost would be borne by the City.

Financial Impacts to Residential Street, Arterial Street, and General Government Improvement Capital Projects Funds

The financial impact of the pandemic will not only reduce revenues in the general fund, but will also effect dedicated and restricted revenues in our capital projects funds. Revenues that are expected to be negatively impacted include parking tax, gas tax (MVFT), real estate excise tax (REET), solid waste utility tax, and impact fees. At this time, we do not expect that grants already approved will be negatively affected by the pandemic.

The chart that follows on the next page summarizes the financial situation for each of the 3 funds and is followed by a narrative explanation for each fund.

		Residential Streets (103)	Bridges and Arterial Streets (104)	General Government Improvements (303)
Beginning Balance		-	2,090,386	656,306
Forecasted Revenues				
	Taxes	243,000	1,027,250	
	Fees		470,056	
	Grants	359,609	2,889,000	
	Interest		20,000	414
	Transfers-In	100,000		-
Total Available Funds		**702,609**	**6,496,692**	**656,720**
Forecasted Spending				
	Wages and Benefits		485,383	50,000
Forecasted Spending by Project				
Fund	**Project Name**			
103	42nd Ave S Phase III	378,000		
103	53rd Ave S	399,000		
103	Traffic Calming/Residential Safety Improve.	2,000		
103	Interfund Loan Repayment	336,932		
104	Strander Blvd Extension Grant Reimb.		622,000	
* 104	West Valley Hwy (I-405 - Strander Blvd)		350,000	
* 104	Boeing Access Rd/Airport Wy Seismic Retrofit		2,614,000	
104	42nd Ave Bridge Replacement		320,000	
104	Annual Overlay		1,400,000	
104	Annual Bridge Inspection & Repairs		335,000	
104	ADA Improvements		50,000	
104	Annual Traffic Signal Program		125,000	
104	Wetland & Environmental Mitigation		40,000	
104	Transportation Element of Comp. Plan		400,000	
104	Walk & Roll Program		75,000	
303	6300 Dry Fire Sprinkler System			30,000
303	Facilities Study			190,000
104	Park Impact Fees		1,009,400	
Total Spending		**1,115,932**	**7,825,783**	**270,000**
Ending Balance		**(413,323)**	**(1,329,091)**	**386,720**

* Indicates projects funded by grant revenue

Residential Street

Revenues currently forecasted for this fund include gas tax (MVFT) and grant revenue that was invoiced in 2019 and expected to be received in 2020. At this time, the City and Seattle City Light are still disputing revenue of approximately $500 thousand the City expected to receive from the utility as part of the 42nd Ave S and 53rd Ave S roadway projects. Because this revenue is still disputed, it is not included in the summary table that follows this discussion. This matter is currently being handled by our attorney. It should be noted that a budgeted transfer in of $100 thousand is still included in the revenue budget.

Expenditures include final costs associated with the 42nd Ave S and 53rd Ave S projects as well as an interfund loan repayment that was necessary at the end of 2019 to keep the fund from reflecting a negative cash balance at the end of 2019. Total amount of the loan was $337 thousand and was necessary because Seattle City Light did not reimburse the City, as expected.

Based on the current forecast for revenue and cost estimates for the projects listed above, it is projected that this fund will have a negative fund balance of $514 thousand at the end of 2020. Unless Seattle City Light reimburses the City for costs incurred on the 2 roadway projects, a transfer in of over $400 thousand will be needed to keep this fund positive at year-end. Staff is recommending that the transfer come from the General Government Improvement fund. The transfer amount, based on current information, could be roughly $386 thousand, leaving a deficit of only $28 thousand to be covered by the general fund. If Seattle City Light reimburses the City, the funds could be transferred back to the general government fund and the general fund.

Arterial Street
Revenues currently forecasted in this fund include parking and gas taxes, real estate excise tax, impact fees, and grant revenue. It also includes the additional solid waste utility tax approved by Council in 2019. At the March 2, 2020 regular council meeting, Council authorized the use of this tax for 30% design for the 42nd Ave South Bridge Replacement project. It should be noted that a budgeted transfer of $1 million was eliminated during the first phase of budget reductions.

Expenditures in this fund include wages and benefits for three FTE as well as a number of projects; many of which are funded solely by dedicated/restricted revenues and transfers in from the general fund. Also included are 2 projects that are almost entirely funded by grants.

Without reducing and/or eliminating projects that are not funded by grant revenue, the fund will end the year with a deficit of over $1.3 million.

In order to keep this fund solvent, staff is recommending the following changes:
- Delay the Transportation Element of the Comprehensive Plan and the Walk & Roll program until 2021.
- Reduce funding for the following projects: overlay, bridge inspections, ADA improvements, traffic signal program, and wetland mitigation by a total of $865 thousand.

General Government Improvements
As part of the first phase of budget reductions, a transfer in of $200 thousand was eliminated. No other revenues are dedicated to this fund.

Planned expenditures in this fund include $19 thousand for phases I and II of a facilities study that includes updated seismic assessments of several facilities, $30 thousand for the dry fire sprinkler system, as well as $100 thousand for other minor repair projects that could be needed this year.

Because of the healthy beginning fund balance of $657 thousand, eliminating the transfer in does not create deficit fund balance at year-end. This fund is currently projected to end the year with a fund balance of over $386 thousand. Due to the current deficit in the residential street fund of $413 thousand, staff recommends transferring any excess funds from this fund into the residential street fund, lessening the impact to the general fund. As mentioned in the discussion on the residential street fund, if Seattle City Light reimburses the City, the funds can be transferred back into this fund.

Suggested schedule for the next several Finance Committee meetings

- April 13, 2020: review 2020 projections, review cash flow, review contingency fund reserve policy and best practices
- April 27, 2020: review impacts to capital projects in residential and arterial street funds, impacts of unemployment costs to the City
- May 11, 2020: Review decision tree and triggers for each scenario
- June 8, 2020: review updated projections and sales tax data

RECOMMENDATION

Schedule an additional Finance Committee meeting, if needed, then forward to April 27,2020 Committee of the Whole for further discussion

ATTACHMENTS
Resolution #1919 – Reserve Fund Policy

City of Tukwila

Washington

Resolution No. 1919

A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF TUKWILA, WASHINGTON, REVISING THE PREVIOUSLY ADOPTED FINANCIAL RESERVE POLICY TO ELIMINATE THE EFFECTS OF GASB 68 FOR PURPOSES OF CALCULATING THE UNRESTRICTED BALANCES OF THE ENTERPRISE FUNDS; AND REPEALING RESOLUTION NO. 1861.

WHEREAS, for the well-being and sustainability of the community, its residents, and businesses, it is important that the City of Tukwila be prepared to respond to any and all situations that could result in a risk and/or crisis to the City's finances including, but not limited to, revenue shortfalls and unanticipated expenditures; and

WHEREAS, it is the responsibility of the City Council of the City of Tukwila to provide policy direction for the City's biennial budget through the passage of motions and ordinances, adoption of resolutions, and final approval of said budget; and

WHEREAS, a financial reserve policy establishes, attains, and restores minimum fund balances, including self-insured health care reserve funds, and specifies review and reporting of such; and

WHEREAS, beginning in 2015 the City was required to implement Governmental Accounting Standards Board Statement 68 (GASB 68) related to accounting and reporting for pension plans; and

WHEREAS, it is the responsibility of the City to report the effects of GASB 68 in the Comprehensive Annual Financial Report (CAFR), even though the effects are not a current liability of the City; and

WHEREAS, the City desires to eliminate the effects of GASB 68 for purposes of calculating the unrestricted balances of the Enterprise Funds;

NOW, THEREFORE, THE CITY COUNCIL OF THE CITY OF TUKWILA, WASHINGTON, HEREBY RESOLVES AS FOLLOWS:

Section 1. Minimum Fund Balances.

A. At the close of each fiscal year, the General Fund unassigned balance shall equal or exceed 18% and the Contingency Fund reserve balance shall equal or exceed 10% of the previous year General Fund revenue, exclusive of significant non-operating, non-recurring revenues such as real estate sales or transfers in from other funds.

B. At the close of each fiscal year, the unrestricted balances of the Enterprise Funds shall equal or exceed 20% of the previous year revenue, exclusive of the effects of GASB Statement 68, as well as significant non-operating, non-recurring revenues such as real estate sales, transfers in from other funds or debt proceeds.

C. Use or draw down of minimum balances shall occur only upon recommendation of City Administration and approval by City Council through a resolution. Should use or draw down occur, the City Administration shall establish a plan, no later than the end of the fiscal year following the year of decline, to restore the fund balance to the prescribed minimum level. The plan shall be presented to and approved by the City Council.

Section 2. One-time Revenue Reserve. A One-time Revenue Reserve shall be established and maintained in the Contingency Fund. The One-time Revenue Reserve shall be credited annually with 10% of the prior year one-time revenues to the extent General Fund surplus for the year is sufficient to cover the reserve funding. Use of the reserve shall occur only upon recommendation by City Administration and approval by City Council through a resolution.

Section 3. Self-insured Health Care Funds. The City shall maintain a reserve in each of its self-insured health care funds in an amount equal to 1.5 times, or 150%, of the actuarially determined IBNR (incurred but not reported) balance. Use of the reserve shall occur only upon recommendation by City Administration and approval by City Council through a resolution.

Section 4. A report showing compliance with the Financial Reserve Policy shall be provided to the City Council on an annual basis, no later than July 1 of each year.

Section 5. Repealer. Resolution No. 1861 is hereby repealed.

PASSED BY THE CITY COUNCIL OF THE CITY OF TUKWILA, WASHINGTON, at a Regular Meeting thereof this 20TH day of November, 2017.

ATTEST/AUTHENTICATED:

Christy O'Flaherty

Christy O'Flaherty, MMC, City Clerk

Dennis Robertson

Dennis Robertson, Council President

APPROVED AS TO FORM BY:

Rachel B. Turpin

Rachel B. Turpin, City Attorney

Filed with the City Clerk: 11-15-17
Passed by the City Council: 11-20-17
Resolution Number: 1919

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