



INFORMATIONAL MEMORANDUM

TO: Finance Committee

FROM: Vicky Carlsen, Finance Director

CC: Mayor Ekberg

DATE: May 20, 2020

SUBJECT: Refund Outstanding 2010B Limited Tax Obligation Bonds

ISSUE

Delegate authority to the Finance Director, through the end of July, to issue limited tax obligation bonds (LTGO) bonds to refund the City's outstanding 2010B LTGO bonds via a direct placement process.

BACKGROUND

The City issued \$3,970,000 LTGO bonds on July 29, 2010 to pay for improvements to Southcenter Parkway and purchase emergency response capital equipment. Bonds were issued with an interest rate ranging from 3.61% to 5.41%; interest rates are higher during the last few years of the repayment schedule. Interest rates for the remaining life of the bonds range from 4.75% to 5.41%. Final payment for these bonds is December 2024.

The bonds have a call provision that allows the bonds to be called on any date on or after June 1, 2020. Given that current interest rates are lower than the rate the City is paying on these bonds, it is the City's best interest to pursue a refunding of these bonds.

Per the City's current debt policy, adopted by Resolution No. 1840, the City will refinance debt to achieve debt service savings as market opportunities arise.

DISCUSSION

As of May 2020, the outstanding balance of these bonds is \$2,330,000 plus total interest of \$383,945.

Refunding these bonds could result in net savings in interest of up to \$70 thousand. The debt could be structured so that most of the savings could be realized in 2020, the fiscal year that is experiencing the largest deficit due to the pandemic.

The issue would be a direct placement with a bank rather than selling the bonds on the open market as this would be the most cost effective method of refunding the existing bonds. With a direct placement, the City would not incur the cost of a bond rating.

An RFP was circulated to banks on May 19, 2020 to determine what banks are interested in submitting a proposal. Review of the proposals is tentatively scheduled for June 10, 2020 with an expected closing date of June 24, 2020.

The draft ordinance delegates authority to the Finance Director, until the end of July, to select the proposal the is in the best interest of the City (if any) and to approve the interest rate and terms of the bond within the parameters set forth in the ordinance. Due to the limited time available before the proposed closing date of June 24, 2020, staff is recommending that this item go directly to the Regular Council meeting on June 1, 2020.

If a proposal is accepted, the Finance Director will report back to the full Council on the details of the agreement.

RECOMMENDATION

Council is being asked to approve the ordinance and consider this item at the June 1, 2020 Regular Meeting.

ATTACHMENTS

Draft Ordinance

Request for Proposals, Limited Tax General Obligation Refunding Bond, 2020

DRAFT

AN ORDINANCE OF THE CITY COUNCIL OF THE CITY OF TUKWILA, WASHINGTON, AUTHORIZING THE ISSUANCE AND SALE OF A LIMITED TAX GENERAL OBLIGATION REFUNDING BOND OF THE CITY IN THE PRINCIPAL AMOUNT OF NOT TO EXCEED \$2,450,000 TO REFUND THE CITY'S OUTSTANDING LIMITED TAX GENERAL OBLIGATION BONDS, 2010B (TAXABLE BUILD AMERICA BONDS – DIRECT PAYMENT) AND TO PAY THE COST OF ISSUING THE BOND; PROVIDING THE FORM, TERMS AND COVENANTS OF THE BOND; DELEGATING THE AUTHORITY TO APPROVE THE SALE OF THE BOND; PROVIDING FOR OTHER MATTERS RELATING THERETO; PROVIDING FOR SEVERABILITY; AND ESTABLISHING AN EFFECTIVE DATE.

WHEREAS, the City of Tukwila, Washington (the “City”), issued its Limited Tax General Obligation Bonds, 2010B (Taxable Build America Bonds – Direct Payment) on July 29, 2010 pursuant to Ordinance No. 2296 passed by the City Council (the “Council”) on July 19, 2020 (the “2010 Ordinance”), in the original principal amount of \$3,970,000 (the “2010 Bonds”); and

WHEREAS, the 2010 Ordinance provides that the City may call the 2010 Bonds maturing on or after December 1, 2020 (the “Refunded Bonds”) for redemption on any date on or after June 1, 2020, in whole or in part, at the price of par plus accrued interest, if any, to the date of redemption; and

WHEREAS, after due consideration it appears that it is in the best interest of the City to authorize the issuance of a Limited Tax General Obligation Refunding Bond to refund and defease the Refunded Bonds as described herein for debt service savings and to pay costs of issuance the bond; and

WHEREAS, the City has issued a request for proposals from various financial institutions to purchase the bond authorized herein; and

WHEREAS, the Council wishes to delegate authority to the Finance Director (the “Designated Representative”), for a limited time, to select the proposal that is in the best interest of the City (if any) and to approve the interest rate and the terms of the bond within the parameters set by this ordinance; and

WHEREAS, the Council now wishes to authorize the issuance of the bond and sale of the bond to the successful respondent subject to the terms and conditions set forth in this ordinance;

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

Section 1. Definitions and Interpretation of TermsError! Bookmark not defined..

(a) **Definitions.** As used in this ordinance, the following words shall have the following meanings:

Acquired Obligations mean the Government Obligations acquired by the City under the terms of this ordinance and the Escrow Agreement to effect the defeasance and refunding of the Refunded Bonds, but only to the extent that the same are acquired at Fair Market Value.

Bond means the City’s Limited Tax General Obligation Refunding Bond, 2020, authorized to be issued pursuant to the terms of this ordinance.

Bond Counsel means Pacifica Law Group LLP, Seattle, Washington, or an attorney at law or a firm of attorneys, which is admitted to practice law before the highest court of any state in the United States of America or the District of Columbia and nationally recognized and experienced in legal work relating to the issuance of tax-exempt bonds who is or are selected by the City.

Bond Purchase Contract means a commitment, bond purchase contract, loan agreement or other contract between the City and the Purchaser, if any, approved by the Designated Representative pursuant to this ordinance.

Bond Register means the registration records for the Bond maintained by the Bond Registrar.

Bond Registrar means the City Finance Director, whose duties include registering and authenticating the Bond, maintaining the Bond Register, transferring ownership of the Bond, and paying the principal of and interest on the Bond.

Call Date means the date of redemption of the Refunded Bonds as set forth in the Escrow Agreement.

City means the City of Tukwila, Washington, a municipal corporation duly organized and existing under the laws of the State of Washington.

City Administrator means the duly appointed and acting City Administrator, including anyone acting in such capacity for the position, or the successor to the duties of that office.

City Attorney means the duly appointed and acting City Attorney, including anyone acting in such capacity for the position, or the successor to the duties of that office.

City Clerk means the duly appointed and acting City Clerk of the City or the successor to the duties of that office.

Code means the Internal Revenue Code of 1986 as in effect on the date of issuance of the Bond or (except as otherwise referenced herein) as it may be amended to apply to obligations issued on the date of issuance of the Bond, together with applicable proposed, temporary and final regulations promulgated, and applicable official public guidance published, under the Code.

Commission means the United States Securities and Exchange Commission.

Council or City Council means the Tukwila City Council, as the general legislative body of the City as the same is duly and regularly constituted from time to time.

Debt Service Fund means the fund or account created pursuant to this ordinance for the purpose of paying debt service on the Bond.

Designated Representative means the Finance Director, or his or her designee.

Escrow Agent means U.S. Bank National Association, and its successors and assigns.

Escrow Agreement means the Escrow Deposit Agreement between the City and the Escrow Agent to be dated as of the date of closing and delivery of the Bond.

Finance Director means the duly appointed and acting Finance Director of the City or the successor to such officer.

Fair Market Value means the price at which a willing buyer would purchase the investment from a willing seller in a bona fide, arm's length transaction, except for specified investments as described in Treasury Regulation § 1.148-5(d)6), including United States Treasury obligations, certificates of deposit, guaranteed investment contracts, and investments for yield restricted defeasance escrows. Fair Market Value is generally determined on the date on which a contract to purchase or sell an investment becomes binding, and, to the extent required by the applicable regulations under the Code, the term "investment" shall include a hedge.

Federal Tax Certificate means the certificate executed by the City setting forth the requirements of the Code for maintaining the tax exemption of interest on the Bond, and attachments thereto.

Government Obligations mean those obligations now or hereafter defined as such in Chapter 39.53 RCW.

Interest Rate means the fixed rate of interest on the Bond as approved by the Designated Representative and set forth in the Bond and in the Bond Purchase Contract.

Maturity Date means the date of final maturity of the Bond, as set forth therein.

Mayor or City Mayor means the elected Mayor of the City, or the successor to the duties of that office.

Purchaser means the financial institution that is the successful respondent to a request for proposals to purchase the Bond, selected by the Designated Representative.

Refunded Bonds mean the outstanding 2010 Bonds.

Registered Owner means the person whose name the Bond is registered to on the Bond Register.

Rule means the Securities and Exchange Commission's Rule 15c2-12 under the Securities Exchange Act of 1934, as the same may be amended from time to time.

State means the State of Washington.

2010 Bonds mean the City's Limited Tax General Obligation Bonds, 2010B (Taxable Build America Bonds – Direct Payment), issued pursuant to the 2010 Ordinance in the original aggregate principal amount of \$3,970,000 on July 29, 2010.

2010 Ordinance means Ordinance No. 2296 passed by the Council on July 19, 2010, authorizing the issuance of the 2010 Bonds.

(b) **Interpretation.** In this ordinance, unless the context otherwise requires:

(1) The terms “hereby,” “hereof,” “hereto,” “herein,” “hereunder” and any similar terms, as used in this ordinance, refer to this ordinance as a whole and not to any particular article, section, subdivision or clause hereof, and the term “hereafter” shall mean after, and the term “heretofore” shall mean before, the date of this ordinance;

(2) Words of any gender shall mean and include correlative words of all genders and words importing the singular number shall mean and include the plural number and vice versa;

(3) Words importing persons shall include firms, associations, partnerships (including limited partnerships), trusts, corporations and other legal entities, including public bodies, as well as natural persons;

(4) Any headings preceding the text of the several articles and sections of this ordinance, and any table of contents or marginal notes appended to copies hereof, shall be solely for convenience of reference and shall not constitute a part of this ordinance, nor shall they affect its meaning, construction or effect; and

(5) All references herein to “articles,” “sections” and other subdivisions or clauses are to the corresponding articles, sections, subdivisions or clauses hereof.

Section 2. Findings; Authorization of the Bond.

(a) **Findings.** The City has established financial policies which provide, as a general rule, that the City may issue refunding bonds to refund outstanding debt when, among other reasons, such refunding results in a sufficient net present value savings. Council approval is necessary prior to the issuance of debt under State law. The Council hereby finds: (1) it is in the best interest of the City and its taxpayers that it issue a Limited Tax General Obligation Refunding Bond to refund the outstanding 2010 Bonds for aggregate net present value debt service savings; (2) interest rates are fluctuating in the current bond market environment, and in order to maximize overall savings, it is in the best interest of the City to refund the outstanding 2010 Bonds as soon as possible after the first optional call date (June 1, 2020); (3) the refunding bond authorized herein will be issued without further Council approval only if the parameters provided for herein are satisfied; and (4) the adoption of this ordinance and the issuance of the refunding bond are necessary, routine and consistent with City policy and Governor Inslee’s emergency proclamation issued on March 24, 2020, as extended and supplemented, suspending portions of the Open Public Meetings Act.

(b) **Authorization of Bond.** For the purpose of defeasing and refunding the Refunded Bonds for aggregate net present value savings and paying costs of issuance of the Bond, the City is hereby authorized to issue and sell a Limited Tax General Obligation Refunding Bond in the principal amount not to exceed \$2,450,000 (the “Bond”).

The Bond shall be a general obligation of the City and shall be designated “City of Tukwila, Washington, Limited Tax General Obligation Refunding Bond, 2020” or other such designation as set forth in the Bond and approved by the Designated Representative. The Bond shall be dated as of its date of delivery to the Purchaser, shall be fully registered as to both principal and interest, shall be in one denomination, and shall mature on the Maturity Date. The Bond shall bear interest from its dated date or the most recent date to which interest has been paid at the Interest Rate. Interest on the principal amount of the Bond shall be calculated per annum on a 30/360 basis, or as otherwise provided in the Bond and in the Bond Purchase Contract. Principal of and interest on the Bond shall be payable at the times and in the amounts as set forth in the Bond Purchase Contract and in the payment schedule attached to the Bond.

Section 3. Registration, Exchange and Payments.

(a) *Registrar/Bond Registrar.* The Finance Director shall act as Bond Registrar. The Bond Registrar is authorized, on behalf of the City, to authenticate and deliver the Bond if transferred or exchanged in accordance with the provisions of the Bond and this ordinance and to carry out all of the Bond Registrar's powers and duties under this ordinance.

(b) *Registered Ownership.* The City and the Bond Registrar may deem and treat the Registered Owner of the Bond as the absolute owner for all purposes, and neither the City nor the Bond Registrar shall be affected by any notice to the contrary. Payment of the Bond shall be made only as described in subsection (d) below. All such payments made as described in subsection (d) below shall be valid and shall satisfy the liability of the City upon the Bond to the extent of the amount so paid.

(c) *Transfer or Exchange of Registered Ownership.* The Bond shall not be transferrable without the consent of the City except as provided in the Bond and in the Bond Purchase Contract.

(d) *Place and Medium of Payment.* Both principal of and interest on the Bond shall be payable in lawful money of the United States of America. Principal and interest on the Bond shall be payable by check, warrant, ACH transfer or by other means mutually acceptable to the Purchaser and the City. Upon final payment of principal and interest of the Bond, the Registered Owner shall surrender the Bond for cancellation at the office of the Bond Registrar in accordance with this ordinance.

(e) *Additional Provisions.* The Bond will not be registered with The Depository Trust Company, New York, New York, or any other securities depository. No official statement, prospectus, offering circular or other offering statement containing material information with respect to the City or the Bond will be provided in connection with the issuance of the Bond; the Bond will be unrated, and the Bond will not be assigned a CUSIP number.

Section 4. Right of Prepayment. The City may prepay the Bond as set forth in the Bond Purchase Contract. If the Bond is prepaid in full, interest shall cease to accrue on the date such prepayment occurs.

Section 5. Form of Bond. The Bond shall be in substantially the form set forth in Exhibit A, which is incorporated herein by this reference.

Section 6. Execution of Bond. The Bond shall be executed on behalf of the City with the manual or facsimile signature of the Mayor, and shall be attested by the manual or facsimile signature of the Clerk. Only such Bond as shall bear thereon a Certificate of Authentication in the form set forth in Exhibit A, manually executed by the Bond Registrar, shall be valid or obligatory for any purpose or entitled to the benefits of this ordinance. Such Certificate of Authentication shall be conclusive evidence that the Bond so authenticated has been duly executed, authenticated and delivered hereunder and is entitled to the benefits of this ordinance.

In case either of the officers who shall have executed the Bond shall cease to be an officer or officers of the City before the Bond so signed shall have been authenticated or delivered by the Bond Registrar, or issued by the City, such Bond may nevertheless be authenticated, delivered and issued and upon such authentication, delivery and issuance, shall be as binding upon the City as though those who signed the same had continued to be such officers of the City. The Bond may also be signed and attested on behalf of the City by such persons who at the date of the actual execution of the Bond, are the proper officers of the City, although at the original date of such Bond any such person shall not have been such officer of the City.

Section 7. Application of Bond Proceeds. Proceeds of the Bond shall be distributed as follows:

(a) *Refunding Plan.* For the purpose of realizing overall debt service savings, the City proposes to refund and defease the Refunded Bonds as set forth herein. Proceeds of the Bond shall be deposited with the Escrow Agent pursuant to the Escrow Agreement to be used immediately upon receipt thereof to defease the Refunded Bonds as authorized by the 2010 Ordinance and to pay costs of issuance of the Bond.

The proceeds of the Bond deposited with the Escrow Agent shall be used to defease the Refunded Bonds and discharge the obligation thereon by either being held uninvested as cash or by the purchase of Acquired Obligations bearing such interest and maturing as to principal and interest in such amounts and at such times which, together with any necessary beginning cash balance, will provide for the payment of interest on the Refunded Bonds on the Call Date and the redemption price of the Refunded Bonds on the Call Date. Such Acquired Obligations, if any, shall be purchased at a yield not greater than the yield permitted by the Code and regulations relating to acquired obligations in connection with refunding the bond issues.

(b) *Escrow Agent; Escrow Agreement.* U.S. Bank National Association is hereby appointed as Escrow Agent. A beginning cash balance, if any, and the Acquired Obligations shall be deposited irrevocably with the Escrow Agent in an amount sufficient to defease and redeem the Refunded Bonds. The proceeds of the Bond remaining after acquisition of the Acquired Obligations, if any, and provision for the necessary beginning cash balance shall be used to pay expenses of the acquisition and safekeeping of the Acquired Obligations and costs of issuance of the Bond and the administrative costs of the refunding. In order to carry out the purposes of this section, the Designated Representative is authorized and directed to execute and deliver this Escrow Agreement to the Escrow Agent.

(c) *Call for Redemption of the 2010 Bonds.* The City hereby sets aside available funds of the City and sufficient funds out of the purchase of the Acquired Obligations from proceeds of the Bond to make payments described above. The City further calls the Refunded Bonds for redemption on the Call Date in accordance with the provisions of the 2010 Ordinance. Said defeasance and call for redemption of the Refunded Bonds shall be irrevocable after the issuance of the Bond and delivery of cash and/or Acquired Obligations to the Escrow Agent. The Escrow Agent is hereby authorized and directed

to provide for the giving of notice of defeasance and/or redemption of the Refunded Bonds in accordance with the applicable provisions of the 2010 Ordinance. The Escrow Agent is hereby authorized and directed to pay to the paying agent for the Refunded Bonds sums sufficient to pay, when due, the payments specified in this section.

Section 8. Tax Covenants. The City will take all actions necessary to assure the exclusion of interest on the Bond from the gross income of the owners of the Bond to the same extent as such interest is permitted to be excluded from gross income under the Code as in effect on the date of issuance of the Bond, including but not limited to the following:

(a) *Private Activity Bond Limitation.* The City will assure that the proceeds of the Bond are not so used as to cause the Bond to satisfy the private business tests of Section 141(b) of the Code or the private loan financing test of Section 141(c) of the Code.

(b) *Limitations on Disposition of Projects.* The City will not sell or otherwise transfer or dispose of: (i) any personal property components of the projects refinanced with proceeds of the Bond other than in the ordinary course of an established government program under Treasury Regulation § 1.141-2(d)(4); or (ii) any real property components of the projects, unless it has received an opinion of Bond Counsel to the effect that such disposition will not adversely affect the treatment of interest on the Bond as excludable from gross income for federal income tax purposes.

(c) *Federal Guarantee Prohibition.* The City will not take any action or permit or suffer any action to be taken if the result of such action would be to cause the Bond to be “federally guaranteed” within the meaning of Section 149(b) of the Code.

(d) *Rebate Requirement.* The City will take any and all actions necessary to assure compliance with Section 148(f) of the Code, relating to the rebate of excess investment earnings, if any, to the federal government, to the extent that such section is applicable to the Bond.

(e) *No Arbitrage.* The City will not take, or permit or suffer to be taken, any action with respect to the proceeds of the Bond which, if such action had been reasonably expected to have been taken, or had been deliberately and intentionally taken, on the date of issuance of the Bond would have caused the Bond to be an “arbitrage bond” within the meaning of Section 148 of the Code.

(f) *Registration Covenant.* The City will maintain a system for recording the ownership of the Bond that complies with the provisions of Section 149 of the Code until the Bond has been surrendered and canceled.

(g) *Record Retention.* The City will retain its records of all accounting and monitoring it carries out with respect to the Bond for at least three years after the Bond matures or is redeemed (whichever is earlier); however, if the Bond is redeemed and refunded, the City will retain its records of accounting and monitoring at least three years after the earlier of the maturity or redemption of the obligations that refunded the Bond.

(h) *Compliance with Federal Tax Certificate.* The City will comply with the provisions of any Federal Tax Certificate with respect to the Bond. In the event of any conflict between this section and the Tax Certificate, the provisions of the Tax Certificate will prevail.

(i) *Bank Qualification.* The City hereby designates the Bond for purposes of paragraph (3) of Section 265(b) of the Code and represents that not more than \$10,000,000 aggregate principal amount of obligations the interest on which is excludable (under Section 103(a) of the Code) from gross income for federal income tax purposes (excluding (i) private activity bonds, as defined in Section 141 of the Code, except qualified 501(c)(3) bonds as defined in Section 145 of the Code; and (ii) current refunding obligations to the extent the amount of the refunding obligation does not exceed the outstanding amount of the refunded obligation), has been or will be issued by the City, including all subordinate entities of the City, during the calendar year 2021.

The covenants of this Section 8 will survive payment in full or defeasance of the Bond.

Section 9. Pledge of Funds and Credit; General Obligation. The City hereby authorizes the creation of a fund or account to be used for the payment of debt service on the Bond (the "Debt Service Fund"). No later than the date each payment of principal of or interest on the Bond becomes due, the City shall transmit sufficient funds, from the Debt Service Fund or from other legally available sources, to the Registered Owner for the payment of such principal or interest. Money in the Debt Service Fund may be invested in legal investments for City funds.

The City hereby irrevocably covenants and agrees for as long as the Bond is outstanding and unpaid that each year it will include in its budget and levy an ad valorem tax upon all the property within the City subject to taxation in an amount that will be sufficient, together with other revenues and money of the City legally available for such purposes, to pay the principal of and interest on the Bond when due.

The City hereby irrevocably pledges that the annual tax provided for herein to be levied for the payment of such principal and interest shall be within and as a part of the tax levy permitted to cities without a vote of the people, and that a sufficient portion of each annual levy to be levied and collected by the City prior to the full payment of the principal of and interest on the Bond will be and is hereby irrevocably set aside, pledged and appropriated for the payment of the principal of and interest on the Bond. The full faith, credit and resources of the City are hereby irrevocably pledged for the annual levy

and collection of said taxes and for the prompt payment of the principal of and interest on the Bond when due.

Section 10. Sale of the Bond. The Council has determined it would be in the best interest of the City to delegate to the Designated Representative for a limited time the authority to approve the final terms of the Bond subject to the provisions of this ordinance. The Designated Representative has solicited bond purchaser proposals and is hereby authorized to select the Purchaser that submits the proposal that is in the best interest of the City. The Bond shall be sold to the Purchaser pursuant to the terms of the Bond Purchase Contract.

Subject to the terms and conditions set forth in this Section 10, the Designated Representative is hereby authorized to select the Purchaser, to approve the dated date of the Bond, principal payment dates, interest payment dates, redemption/prepayment provisions, the Maturity Date, and the Interest Rate for the Bond, to approve and execute the Bond Purchase Contract, to agree to any additional terms and covenants that are in the best interest of the City and consistent with this ordinance, and to execute the sale of the Bond to the Purchaser, provided that:

- (a) the principal amount of the Bond does not exceed \$2,450,000,
- (b) the Maturity Date for the Bond is no later than December 1, 2024,
- (c) the Bond is sold at a price of not less than 98% of par,
- (d) the true interest cost for the Bond does not exceed 2.0%, and
- (e) the Bond is sold for a price that results in a minimum aggregate net present value debt service savings over the Refunded Bonds (calculated by deducting scheduled federal subsidy payments with respect to the Refunded Bonds from annual debt service and assuming no future sequestration of such payments) of at least 1.0%.

Following the sale of the Bond, the Designated Representative shall provide a report to Council describing the sale and final terms of the Bond approved pursuant to the authority delegated in this section.

The authority granted to the Designated Representative by this Section 10 shall expire on August 1, 2020. If the Bond has not been sold by August 1, 2020, the authorization for the issuance of the Bond shall be rescinded, and the Bond shall not be issued nor its sale approved unless such Bond shall have been re-authorized by ordinance of the Council. The ordinance re-authorizing the issuance of the sale of such Bond may be in the form of a new ordinance repealing this ordinance in whole or in part or may be in the form of an amendatory ordinance.

Upon passage and approval of this ordinance, the proper officials of the City including the Designated Representative, the Mayor, the City Administrator and the City Clerk are authorized and directed to undertake all action necessary for the prompt execution and delivery of the Bond to the Purchaser thereof and further to execute all closing certificates, agreements, and documents required to effect the closing and delivery of the Bond in accordance with the terms of the Bond Purchase Contract.

Section 11. Ongoing Disclosure; Covenants. The Bond is exempt from ongoing disclosure requirements of the Rule.

The City may agree to provide the Purchaser certain financial or other information and agree to such covenants as determined to be necessary by the Designated Representative and as set forth in the Bond Purchase Contract and approved by the Designated Representative.

Section 12. Lost, Stolen or Destroyed Bond. In case the Bond shall be lost, stolen or destroyed while in the Registered Owner's possession, the Bond Registrar may at the request of the Registered Owner execute and deliver a new Bond of like date, number and tenor to the Registered Owner thereof upon the Registered Owner's paying the expenses and charges of the City and the Bond Registrar in connection therewith and upon its filing with the City written certification that such Bond was actually lost, stolen or destroyed and of its ownership thereof. In the case the Bond shall be lost, stolen, or destroyed while in the Registered Owner's possession, the Registered Owner may elect upon final payment of principal and interest of the Bond to surrender a photocopy of the Bond for cancellation at the office of the Bond Registrar together with written certification that such Bond was actually lost, stolen or destroyed and of its ownership thereof.

Section 13. Severability; Ratification. If any one or more of the covenants or agreements provided in this ordinance to be performed on the part of the City shall be declared by any court of competent jurisdiction to be contrary to law, then such covenant or covenants, agreement or agreements, shall be null and void and shall be deemed separable from the remaining covenants and agreements of this ordinance and shall in no way affect the validity of the other provisions of this ordinance or of the Bond. All acts taken pursuant to the authority granted in this ordinance but prior to its effective date are hereby ratified and confirmed.

Section 14. Corrections by Clerk. Upon approval of the City Attorney and Bond Counsel, the City Clerk is hereby authorized to make necessary corrections to this ordinance, including but not limited to the correction of clerical errors; references to other local, state or federal laws, codes, rules, or regulations; ordinance numbering and section/subsection numbering; and other similar necessary corrections.

Section 15. Effective Date. This ordinance or a summary thereof shall be published in the official newspaper of the City, and shall take effect and be in full force five days after passage and publication as provided by law.

PASSED BY THE CITY COUNCIL OF THE CITY OF TUKWILA, WASHINGTON, at
a Regular Meeting thereof this this _____ day of _____, 2020.

ATTEST/AUTHENTICATED:

Christy O’Flaherty, MMC, City Clerk

Allan Ekberg, Mayor

APPROVED AS TO FORM BY:

Filed with the City Clerk: _____

Passed by the City Council: _____

Published: _____

Effective Date: _____

Ordinance Number: _____

Pacifica Law Group LLP, Bond Counsel

Attachment: Exhibit A – Form of Bond; Certificate of Authentication and Registration

Exhibit A

Form of Bond

[TRANSFER RESTRICTIONS]

UNITED STATES OF AMERICA

NO. R-1

\$ _____

STATE OF WASHINGTON

CITY OF TUKWILA

LIMITED TAX GENERAL OBLIGATION REFUNDING BOND, 2020

INTEREST RATE: _____

MATURITY DATE: _____

REGISTERED OWNER: _____

PRINCIPAL AMOUNT: _____

The City of Tukwila, Washington, a municipal corporation organized and existing under and by virtue of the laws of the State of Washington (the "City"), hereby acknowledges itself to owe and for value received promises to pay to the Registered Owner identified above, on or before the Maturity Date identified above, the Principal Amount identified above and to pay interest thereon from the date of delivery, or the most recent date to which interest has been paid or duly provided for, at the Interest Rate set forth above (the "Interest Rate"). Interest on this bond shall accrue from its dated date until paid and shall be computed per annum on the principal amount outstanding on a 30/360 basis. Principal of and accrued interest on this bond shall be payable on the dates set forth in the payment schedule attached hereto.

Both principal of and interest on this bond shall be payable in lawful money of the United States of America. Principal and interest on this bond shall be payable by check or warrant or by other means mutually acceptable to the Registered Owner and the City. Upon final payment of principal and interest of this bond, the Registered Owner shall surrender this bond for cancellation at the office of the Bond Registrar in accordance with Ordinance No. _____ of the City (the "Bond Ordinance").

This bond is issued pursuant to the Bond Ordinance to provide funds to refund certain outstanding general obligations bonds of the City and to pay costs of issuance. Capitalized terms used in this bond have the meanings given such terms in the Bond Ordinance.

[Prepayment provisions]

This bond **has/has not** been designated by the City as a "qualified tax-exempt obligation" within the meaning of Section 265(b) of the Internal Revenue Code of 1986, as amended.

The City has in the Bond Ordinance authorized the creation of a fund to be used for the payment of debt service on this bond, designated as the Debt Service Fund. The Debt Service Fund shall be drawn upon for the sole purpose of paying the principal of and interest on this bond.

The City hereby irrevocably covenants and agrees with the owner of this bond that it will include in its annual budget and levy taxes annually, within and as a part of the tax levy permitted to the City without a vote of the electorate, upon all the property subject to taxation in amounts sufficient, together with other money legally available therefor, to pay the principal of and interest on this bond as the same shall become due. The full faith, credit and resources of the City are hereby irrevocably pledged for the annual levy and collection of such taxes and the prompt payment of such principal and interest.

Owners of this bond do not have a security interest in particular revenues or assets of the City. This bond is not a debt or indebtedness of the State of Washington, or any political subdivision thereof other than the City.

This bond shall not be valid or become obligatory for any purpose or be entitled to any security or benefit under the Bond Ordinance until the Certificate of Authentication hereon shall have been manually signed by or on behalf of the Bond Registrar or its duly designated agent.

This bond is issued pursuant to the Constitution and laws of the State of Washington, and duly adopted ordinances of the City. This bond is transferable upon compliance with the conditions set forth in the Bond Ordinance.

It is hereby certified that all acts, conditions and things required by the Constitution and statutes of the State of Washington to exist, to have happened, been done and performed precedent to and in the issuance of this bond exist, have happened, been done and performed and that the issuance of this bond does not violate any constitutional, statutory or other limitation upon the amount of bonded indebtedness that the City may incur.

IN WITNESS WHEREOF, the City of Tukwila, Washington, has caused this bond to be executed by the manual or facsimile signature of the Mayor of the City **Council** and attested by the manual or facsimile signature of the City Clerk, as of this _____ day of _____, 2020.

[SEAL]

CITY OF TUKWILA, WASHINGTON

By _____
Allan Ekberg, Mayor

ATTEST:

Christy O'Flaherty, MMC, City Clerk

CERTIFICATE OF AUTHENTICATION AND REGISTRATION

This bond is the City of Tukwila, Limited Tax General Obligation Refunding Bond, 2020, described in the within mentioned Bond Ordinance and is registered in the name of the Registered Owner on the books of the City, in the office of the City Finance Director (the "Bond Registrar"), as to both principal and interest, as noted in the registration blank below. All payments of principal of and interest on this bond shall be made by the City to the Registered Owner from the Debt Service Fund.

<u>Date of Registration</u>	<u>Name and Address of Registered Owner</u>	<u>Signature of Bond Registrar</u>
_____, 2020	_____ _____	_____ Finance Director



Request for Proposals
City of Tukwila, Washington
Limited Tax General Obligation Refunding Bond, 2020
May 19, 2020

Introduction

The City of Tukwila, Washington (the “City”) is requesting proposals for a Limited Tax General Obligation Refunding Bond, 2020 (the “Bond”) in accordance with the Proposed Financing Terms set forth below. If issued, proceeds of the Bond will be used to refund, on a current basis, the City’s outstanding Limited Tax General Obligation Bonds, 2010B (Taxable Build America Bonds – Direct Payment), which are callable on June 1, 2020 (callable par amount of \$2,330,000).

The purchaser will be provided with an opinion from the City’s bond counsel, Pacifica Law Group LLP, relating to the City’s authority to issue the Bond, enforceability of Bond, and its tax-exempt status. The Bond will not be rated; however, the City’s outstanding limited tax general obligation bonds carry a rating of “AA+” (stable outlook) from S&P Global Ratings (rating report dated October 1, 2019).

By providing a proposal, each proposer is agreeing to the Proposed Financing Terms herein, and is acknowledging the Schedule of Events set forth below. Each proposal must state an interest rate to be offered, and, if subject to adjustment prior to Bond closing, the methodology for such adjustment. Terms of each proposal should be firm for closing through July 15, 2020.

Schedule of Events

The following sets forth the expected time schedule for events relating to the proposed financing

Request for Financing Proposals Distributed.....	May 19
City Council Meeting to consider Bond Ordinance	June 1
Purchaser Proposals Due (3:00 p.m. Pacific Time)	June 5
Review of and acceptance of winning proposal by the City.....	By June 10
Closing Date.....	June 24

Proposed Financing Terms

Closing Date: June 24, 2020 (estimate)

Principal Amount: \$1,995,000 (estimate); not-to-exceed \$2,450,000

Tax Status: Tax-exempt; bank qualified

Final Maturity: December 1, 2024 (4 years). Principal payments are estimated as shown in the following table; however, principal payment amounts are subject to adjustment based on the final interest rate of the Bond.

Payment Date	Principal
12/1/2021	\$490,000
12/1/2022	495,000
12/1/2023	500,000
12/1/2024	510,000
Total:	\$1,995,000

Note: Preliminary; subject to change

Interest: Interest will be payable semi-annually with interest due on June 1 and December 1, commencing December 1, 2020. The City will only consider fixed rates of interest.

Purpose: To refund, on a current basis, the City's outstanding Limited Tax General Obligation Bonds, 2010B (Taxable Build America Bonds – Direct Payment), which were originally issued to finance the acquisition and construction of Southcenter Parkway improvements, the acquisition and installation of emergency preparedness facilities, fixtures, equipment, and information technology and software.

Security: The Bond is a limited tax general obligation of the City. For as long as the Bond is outstanding, the City has irrevocably pledged to include in its budget and levy taxes annually, within the constitutional and statutory limitations provided by law without a vote of the electors of the City, on all of the taxable property within the City in an amount sufficient, together with other money legally available and to be used therefor at the discretion of the City Council, to pay when due the principal of and interest on the Bond. The City irrevocably pledges its full faith, credit and resources to the annual levy and collection of such taxes and for the prompt payment of such principal and interest. The Bond does not constitute a debt or indebtedness of King County, the State of Washington, or any other political subdivision thereof other than the City.

Financial and Other Information

To assist in the preparation of proposals, links to the City's most recent official statement (2019), and the City's audited financial statements for the years 2014 through 2018 may be found below. *These documents are dated as of their respective dates and do not reflect subsequent events.*

1. Audited Financial Statements 2018:
<https://www.tukwilawa.gov/wp-content/uploads/Fin-Current-CAFR.pdf>
2. Audited Financial Statements 2017:
https://www.tukwilawa.gov/wp-content/uploads/Fin-CAFR_2017.pdf
3. Audited Financial Statements 2016:
https://www.tukwilawa.gov/wp-content/uploads/Fin-CAFR_2016.pdf
4. Audited Financial Statements 2015:
https://www.tukwilawa.gov/wp-content/uploads/Fin-CAFR_2015.pdf
5. Audited Financial Statements 2014:
https://www.tukwilawa.gov/wp-content/uploads/Fin-CAFR_2014.pdf

Limited Tax General Obligation Bonds, 2019 (Official Statement): <https://emma.msrb.org/ES1428030.pdf>

Informational Memoranda. The 2019 novel coronavirus ("COVID-19") pandemic currently is affecting many parts of the world, including the State and the local region, including the City. City staff has prepared two memoranda to brief its Mayor and City Council on the financial impacts of COVID-19 and the City's response. These memoranda are public documents, are available to the public on the City's website, and are attached to this RFP for the convenience of the reader. The memoranda include:

1. Memo: Budget Impacts due to COVID-19 Pandemic (Exhibit A)
2. Memo: Decision Tree for Financial Impacts of COVID-19 (Exhibit B)

The information contained in these exhibits speak only of their dates, has been compiled from sources considered to be reliable, and is subject to change without notice. The City cannot predict the duration and extent of the COVID-19 public health emergency, or quantify the magnitude of the impact on the State and regional economy or on the other revenues and expenses of the City.

Cautionary Note. In the preparation of the projections contained in the attached exhibits, the City has made certain assumptions with respect to conditions that may occur in the future. Although the City believes these assumptions are reasonable for the purpose of the projections, they are dependent upon future events, and actual conditions may differ from those assumed. To the extent actual future events or conditions differ from those assumed by the City or provided to the City by others, the actual results will vary from those projected.

Certain statements contained in this RFP do not reflect historical facts, but rather are forecasts and "forward-looking statements." No assurance can be given that the future results discussed herein will be achieved, and actual results may differ materially from the forecasts shown. In this respect, the words "estimate," "project," "anticipate," "expect," "intend," "believe" and similar expressions are intended to identify forward-looking statements. The achievement of certain results or other expectations contained in forward-looking statements involves known and unknown risks, uncertainties and other factors that may cause actual results, performance or achievements described to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Such risks and uncertainties include, among others, changes in regional, domestic and international political, social and economic conditions, federal, state and local statutory and regulatory initiatives, litigation, technological change, seismic events, and various other events, conditions and circumstances, many of which are beyond the control of the City. All estimates, projections, forecasts, assumptions and other

forward-looking statements are expressly qualified in their entirety by the cautionary statements set forth in this RFP. These forward-looking statements speak only as of the date they were prepared. The City does not plan to issue any updates or revisions to those forward-looking statements if or when their expectations or events, conditions or circumstances on which such statements are based occur and specifically disclaims any such obligation.

Nothing contained in this RFP is, or should be construed as, a representation by the City that this RFP, including the documents attached hereto or referenced herein, comprises all of the information that may be material to a decision to invest in, hold, or dispose of any City debt. The information and expressions of opinions herein are subject to change without notice, and the delivery of this RFP does not, under any circumstances, create any implication that there has been no change in the affairs of the City or in the other matters described herein since the dates as of which such information is provided.

Proposals

If your firm is interested in providing a proposal to the City, please include the requested information to be submitted by the date shown in the Schedule of Events.

Proposals should clearly state: the proposed interest rate of the Bond (and methodology for such adjustment, if subject to change before closing); other fees and costs charged by purchaser (if any); prepayment terms; conditions (if any); and concurrence with the Schedule of Events set forth above.

The City reserves the right to seek clarification or negotiate modifications with one or more proposing firms, if needed to meet the City's needs.

Proposals will be evaluated based on responses to the information requested herein. The City will consider all information provided in response to this request in making its selection. The City further reserves the right, in its sole discretion, to select the proposal that is in the best interest of the City or to reject all proposals.

All proposals will be considered firm proposals, and may not be changed from the date and time of submission through the dates of closing and settlement as set forth in the schedule above.

The Purchaser will be expected to sign a purchaser letter and issue price certificate in substantially the forms attached. The Bond will not be registered with the Securities and Exchange Commission or any other regulatory body. Accordingly, the Bond will not be transferable unless a subsequent transfer is exempt from the registration requirements under the Act and as provided in the form of purchaser letter, a copy of which is attached. Investors should consult with their counsel as to the applicable requirements for an investor to avail itself of any exemption under the Act. No CUSIP number will be assigned to the Bond unless requested or unless a CUSIP is required by Rule G-34 of the Municipal Securities Rulemaking Board, as amended.

This is not a commitment.

Representation of Present Intent to Hold:

By submitting a bid, the purchaser represents that it has a present intent to hold the Bond subject to this transaction to maturity, earlier redemption, or for its loan portfolio, and has no present intention of reselling or otherwise disposing of all or a part of such Bond. Purchaser acknowledges that PFM Financial Advisors LLC ("Municipal Advisor" to the City) is relying on the foregoing representation and based on this representation this transaction meets the requirements for being a qualifying exception for purposes of MSRB Rule G-34, and the Municipal Advisor is excepted and released from the requirement to request a CUSIP assignment on behalf of the City pursuant to MSRB Rule G-34 for the Bond.

Proposals are to be submitted by e-mail to the City's financial advisor, PFM, at sea-advisors@pfm.com.

Please contact Duncan Brown (brownd@pfm.com or 206-858-5367) or Steven Amano (amanos@pfm.com or 206-858-5366) with any questions or if you require additional information.



Proposed Form of Purchaser Letter

[Purchaser's Letterhead]

_____, 2020

City of Tukwila
Tukwila, Washington

RE: City of Tukwila, Washington, Limited Tax General Obligation Refunding Bond, 2020
(the "Bond")

Ladies and Gentlemen:

The undersigned hereby represents _____, a _____ (the "Purchaser"), hereby acknowledges receipt of the above-referenced Bond dated _____, 2020, issued in the principal amount of \$_____. The undersigned acknowledges that the Bond was issued pursuant to Ordinance ___ of the City of Tukwila, Washington (the "Bond Ordinance"). Capitalized terms used in this letter have the meanings given such terms in the Bond Ordinance.

In connection with the acquisition of the Bond by the Purchaser, the Purchaser hereby makes the following representations upon which you may rely:

1. The Purchaser is an institutional investor who is an accredited investor (as defined under paragraph 1, 2, 3, or 7 of Rule 501(a) of the Securities Act of 1933 (the "Act")).

2. The Purchaser has sufficient knowledge and experience in financial and business matters, including purchase and ownership of governmental obligations, to be able to evaluate the risks and merits of the loan represented by its purchase of the Bond, and its net worth and available assets are such that it is able to bear the economic risk of its purchase of the Bond. The Purchaser is able to bear the economic risk of the investment represented by its purchase of the Bond.

3. The Purchaser understands that the Bond is a general obligation of the City payable as set forth in the Bond Ordinance. The Purchaser acknowledges that no property, credit enhancement, or other security has been pledged to the payment of principal of and interest on the Bond.

4. The Purchaser understands that no official statement, prospectus, offering circular or other offering statement containing material information with respect to the City or the Bond is being issued, that the Bond is unrated, and that, with due diligence, it has made its own inquiry and analysis with respect to the City, the Bond and the security therefor, and other material factors affecting the security for and payment of the Bond, and is relying solely on such inquiry and analysis in its purchase of the Bond.

5. The Purchaser acknowledges that it has either been supplied with or been given access to information, including financial statements and other financial information, to which a reasonable investor would attach significance in making investment decisions, and the Purchaser has had the opportunity to ask questions and receive answers from knowledgeable individuals and organizations concerning the City, the use of proceeds of the Bond and the Bond and the security therefor so that, as a reasonable investor, the Purchaser has been able to make its decision to purchase the Bond.

6. The Purchaser acknowledges that it is purchasing the Bond for investment for its own account and not with a present view toward resale or the distribution thereof, in that it does not now intend to resell or otherwise dispose of all or any part of its interests in the Bond. The Purchaser acknowledges that the Bond shall not be transferable without the consent of the City unless (a) the Purchaser's corporate name is changed and the transfer is necessary to reflect such change; (b) the transferee is a successor in interest of the Purchaser by means of a corporate merger, an exchange of stock, or a sale of assets; or (c) the transferee is an institutional investor who is an accredited investor (as defined under paragraph 1, 2, 3, or 7 of Rule 501(a) of the Act, and such transferee executes a purchaser's letter substantially similar to this letter. The Purchaser also acknowledges that any transfer of the Bond that fails to comply with this provision and the transfer limitations on the Bond contained in the Bond Ordinance shall be null and void.

7. The Purchaser understands that the Bond is an exempted security under the Act and that registration is not legally required as of the date hereof; and further understands that the Bond (a) is not being registered or otherwise qualified for sale under the "Blue Sky" laws and regulations of any state, (b) will not be listed in any stock or other securities exchange, (c) will not carry a rating from any rating agency, and (d) will be issued in a single denomination of \$[_____], which may not be readily marketable.

8. The Purchaser has had the opportunity to consult with and be advised by legal counsel as to the significance of this letter and it has satisfied itself that the Bond is a lawful investment for it under all applicable laws.

Very truly yours,

Certificate of Purchaser

The undersigned duly authorized representative of _____ (the “Purchaser”) hereby certifies in good faith as of the issue date for the _____ (the “Bond”) that:

Required for all private placements:

1. The Purchaser is paying the purchase price of \$_____ (the “Issue Price”) for the Bond, equal to the par amount of the Bond. The Bond is not being issued in exchange for property.

Or The Purchaser is paying the purchase price of \$_____ (the “Issue Price”) for the Bond, equal to the par amount of the Bond less original issue discount in the form of an origination fee of \$_____ paid by the Issuer. The Bond is not being issued in exchange for property.

2. The Purchaser is not acting as an Underwriter with respect to the Bond. The Purchaser has no present intention to sell, reoffer, or otherwise dispose of the Bond (or any portion of the Bond or any interest in the Bond). The Purchaser has not contracted with any person pursuant to a written agreement to have such person participate in the initial sale of the Bond, and the Purchaser has not agreed with the Issuer pursuant to a written agreement to sell the Bond to persons other than the Purchaser or a related party to the Purchaser.

Public means any person (including an individual, trust, estate, partnership, association, company, or corporation) other than an Underwriter or a related party to an Underwriter. The term “related party” for purposes of this certificate generally means any two or more persons who have greater than 50% common ownership, directly or indirectly.

Underwriter means (i) any person that agrees pursuant to a written contract with the Issuer (or with the lead underwriter to form an underwriting syndicate) to participate in the initial sale of the Bond to the Public, and (ii) any person that agrees pursuant to a written contract directly or indirectly with a person described in clause (i) of this paragraph to participate in the initial sale of the Bond to the Public (including a member of a selling group or a party to a retail distribution agreement participating in the initial sale of the Bond to the Public).

Loan fee that is not OID:

The Purchaser is being paid a fee (the “Loan Fee”) of \$_____ with respect to the Bond. The Loan Fee is a fee for the payment of services or property provided by the Purchaser and does not represent a payment in the nature of points.

If Bank is providing 8038 calculations:

The computation of the yield of the Bond for purposes of Section 148 of the Internal Revenue Code of 1986, as amended (the “Code”), the weighted average maturity of the Bond for federal tax Form 8038-G, are all set forth in the attached Schedules. We have computed yield as the discount rate that, when used in computing the present value of all principal and interest payments to be made under the Bond from the date of issuance, to maturity, produces an amount equal to the aggregate Issue Price; provided that, the Issuer is assumed to exercise or not exercise an option or combination of options (including an optional redemption provision) in a manner that minimizes yield on the Bond and a holder is assumed to exercise or not exercise an option or combination of options in a manner that maximizes yield on the Bond. The weighted average maturity of the Bond is the sum of the products of the Issue Price of the Bond and the

number of years to maturity (taking into account mandatory redemptions), divided by the Issue Price of the Bond.

To the extent that we provided certain computations that show a yield, issue price, weighted average maturity and certain other information with respect to the Bond, as shown in the attached Schedules, these computations are based on our understanding of directions that we have received from Bond Counsel regarding interpretation of the applicable law. We express no view regarding the legal sufficiency of any such computations or the correctness of any legal interpretation made by Bond Counsel. Nothing herein represents our interpretation of any laws or regulations under the Code.

The Issuer may rely on the statements made herein in connection with making the representations set forth in the Federal Tax Certificate and in its efforts to comply with the conditions imposed by the Code on the exclusion of interest on the Bond from the gross income of their owners. Bond Counsel also may rely on this certificate for purposes of its opinion regarding the treatment of interest on the Bond as excludable from gross income for federal income tax purposes. We acknowledge that Bond Counsel's opinion applies to amounts properly treated as interest on the Bond and does not apply to fees, charges or contingent payments that may be paid with respect to the Bond. In addition, we acknowledge that if the terms of the Bond are modified after the Issue Date, such modification may result in a reissuance which could have an adverse effect on the tax-exempt status of the Bond. Capitalized terms used but not defined herein have the meanings given those terms in the Federal Tax Certificate.

Dated: _____

[Purchaser]

By: _____

Exhibit A

Memo to the City of Tukwila Finance Committee
Budget Impacts due to COVID-19 Pandemic



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 May 4, 2020 Regular Meeting**

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.

Lost Revenue

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
Accommodation & 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

Delayed Revenue

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.

Adjust General Fund Expenditures Based on Revenue Assumptions

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.

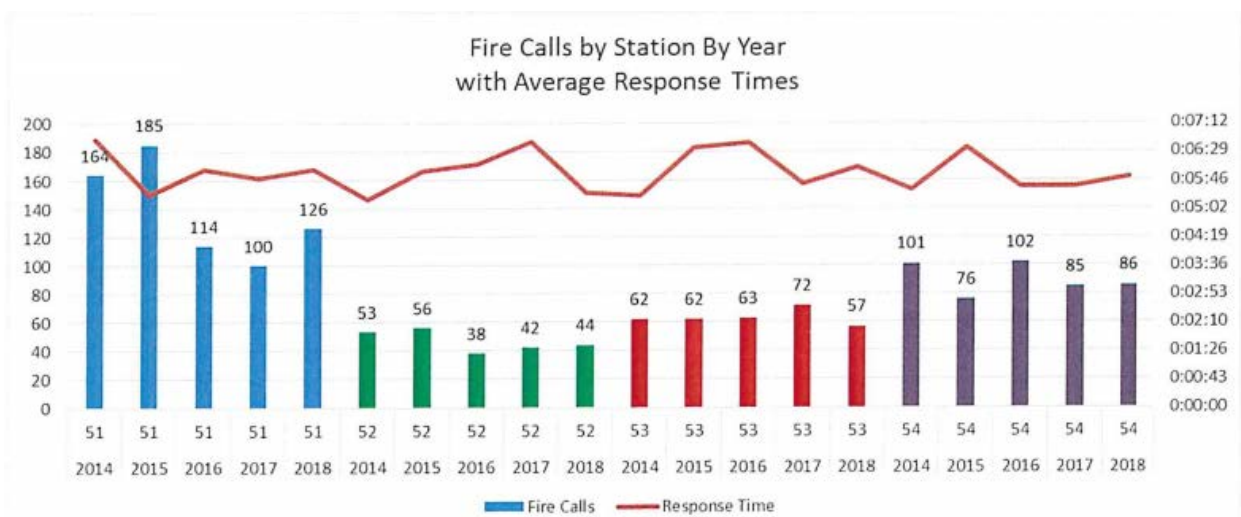
All departments have been asked to identify additional expenditure reductions. To date, departments have identified an additional \$1.8 million in savings.

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 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	Companies begin encouraging employees to work from home	Governor bans gatherings of 250 or more in King, Pierce, and Snohomish counties	Governor extends ban of gatherings of 250 or more across State	Closure of all restaurants, bars, entertainment, and recreational facilities	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
Governor issues state of emergency	Some schools across state close for a few days		Schools closed for 6 weeks	Limits large group gatherings through March 31				

** 38 days in the timeline **

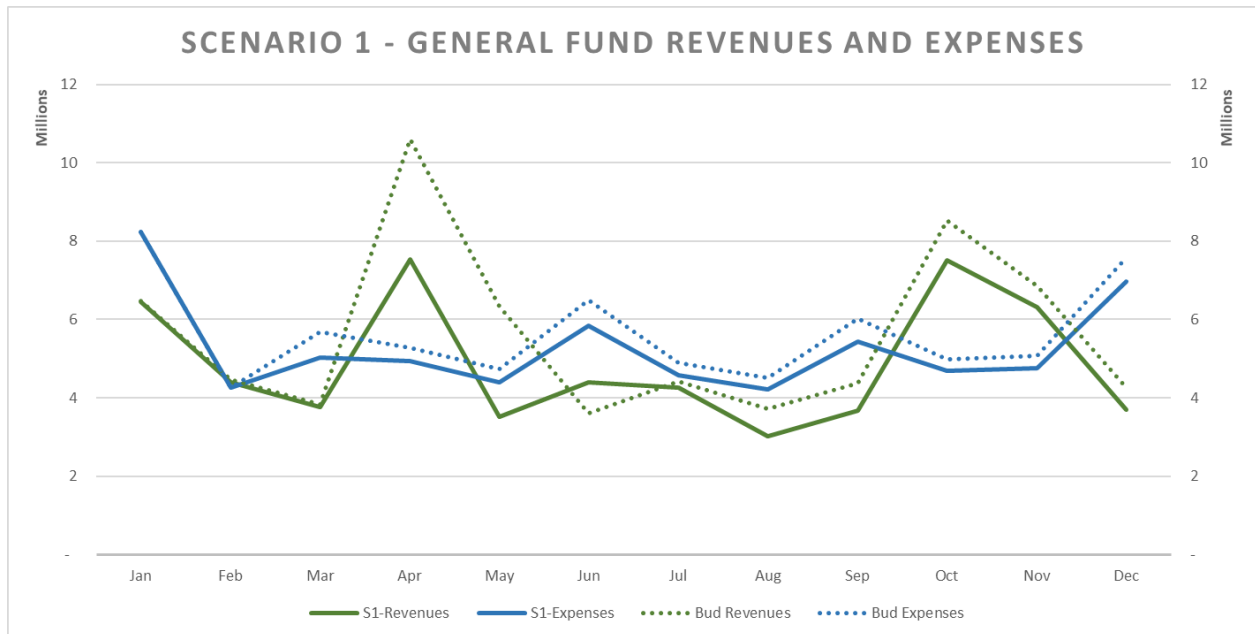
Scenario 1 – Stay At Home Ends May 4:

- 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.

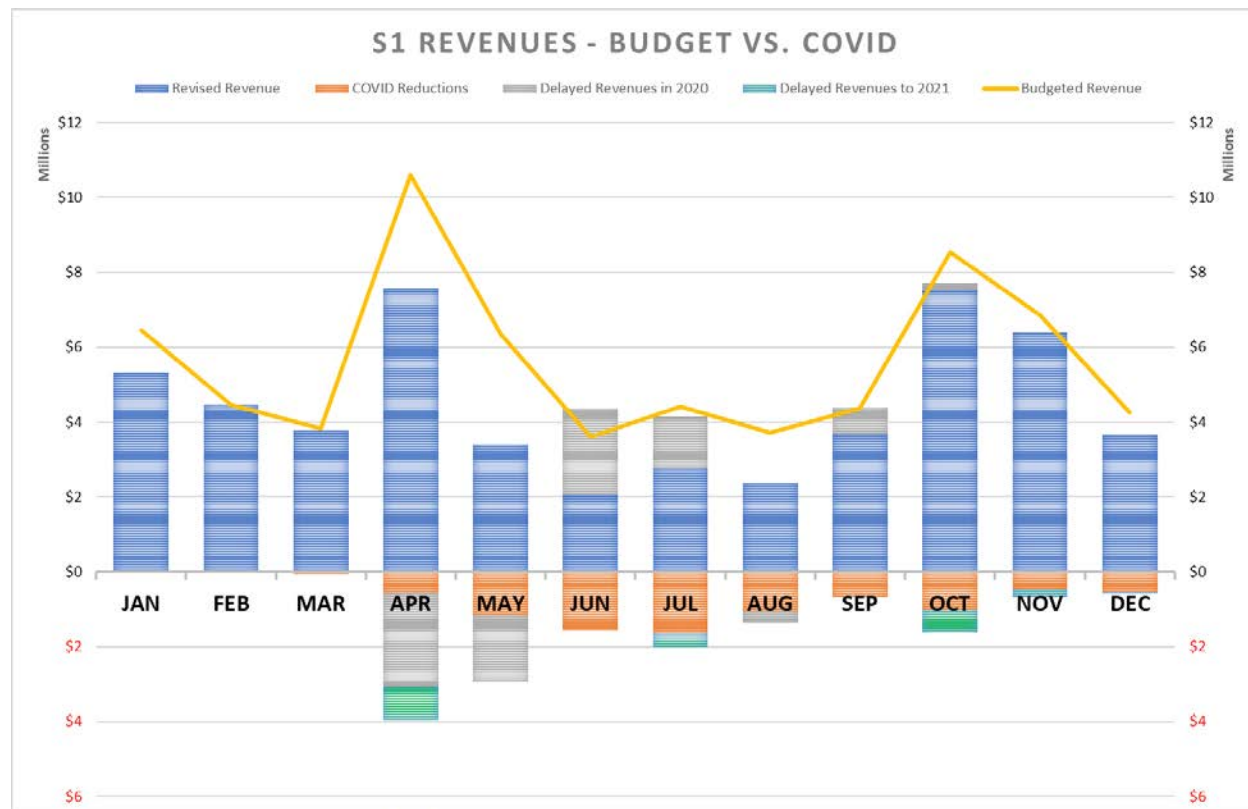
Under Scenario 1, the City would need to identify ways to close an additional gap of \$2.4 million.

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)



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.

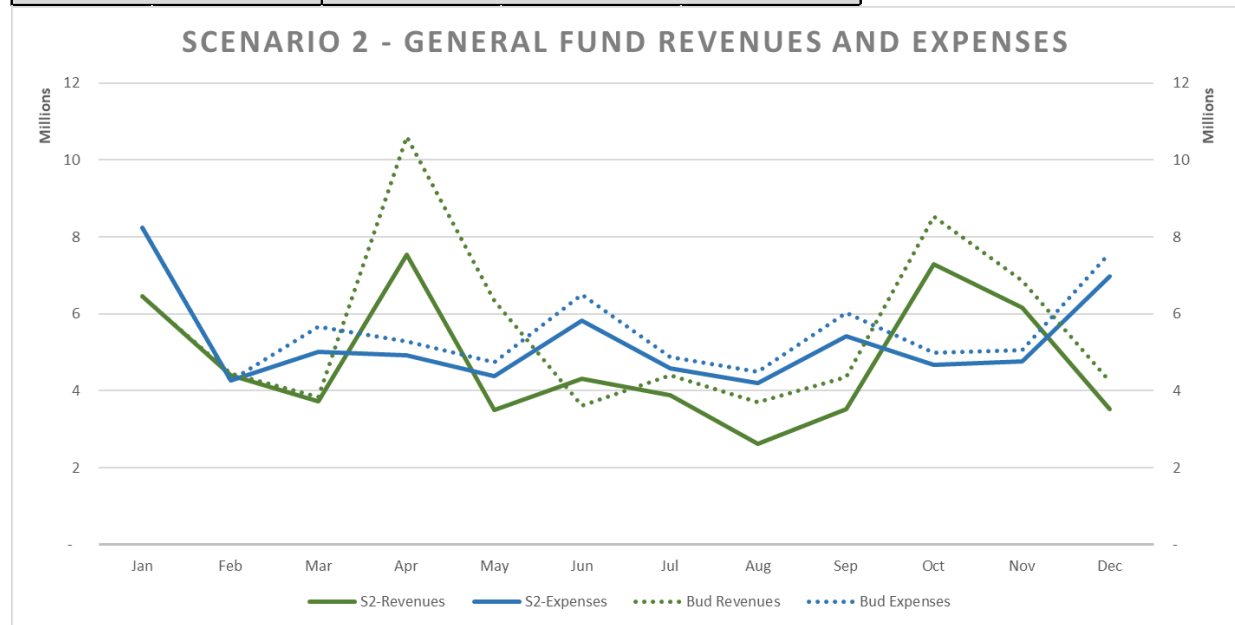


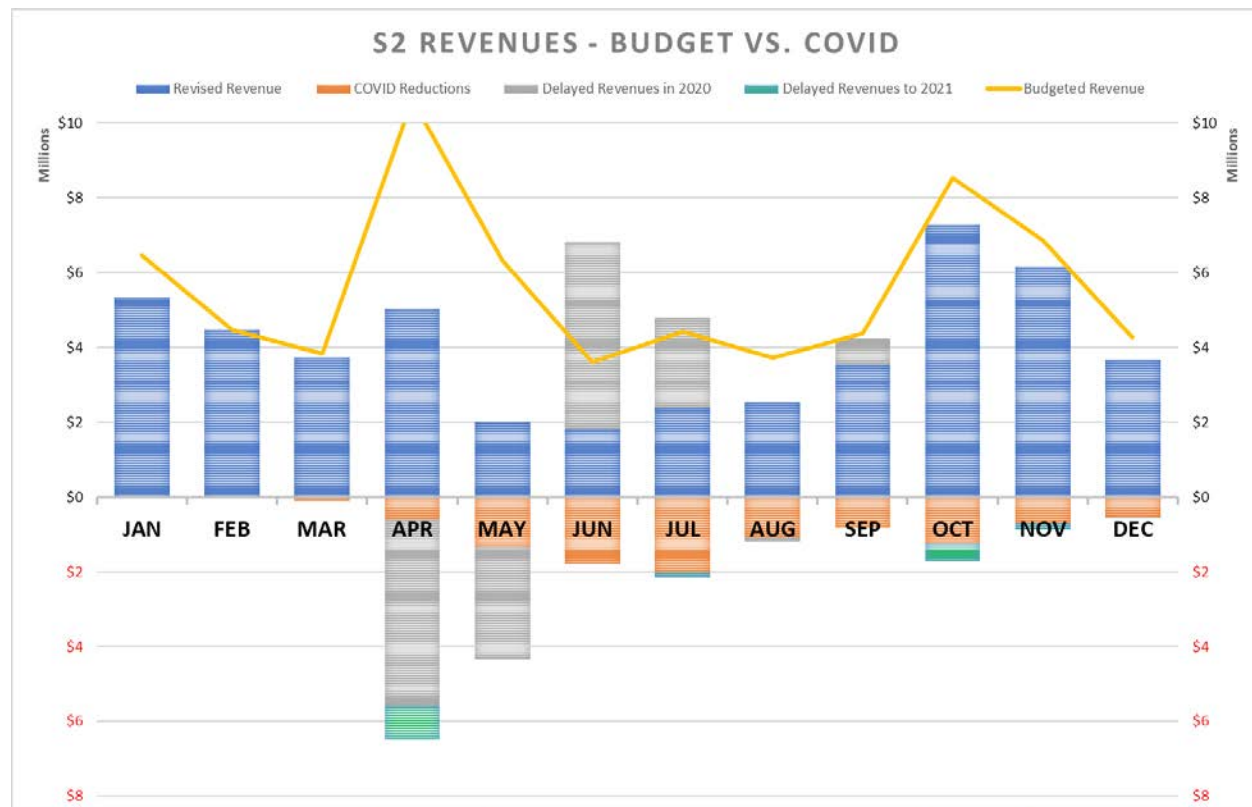
Scenario 2 - Stay at Home Extended into June:

- 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)



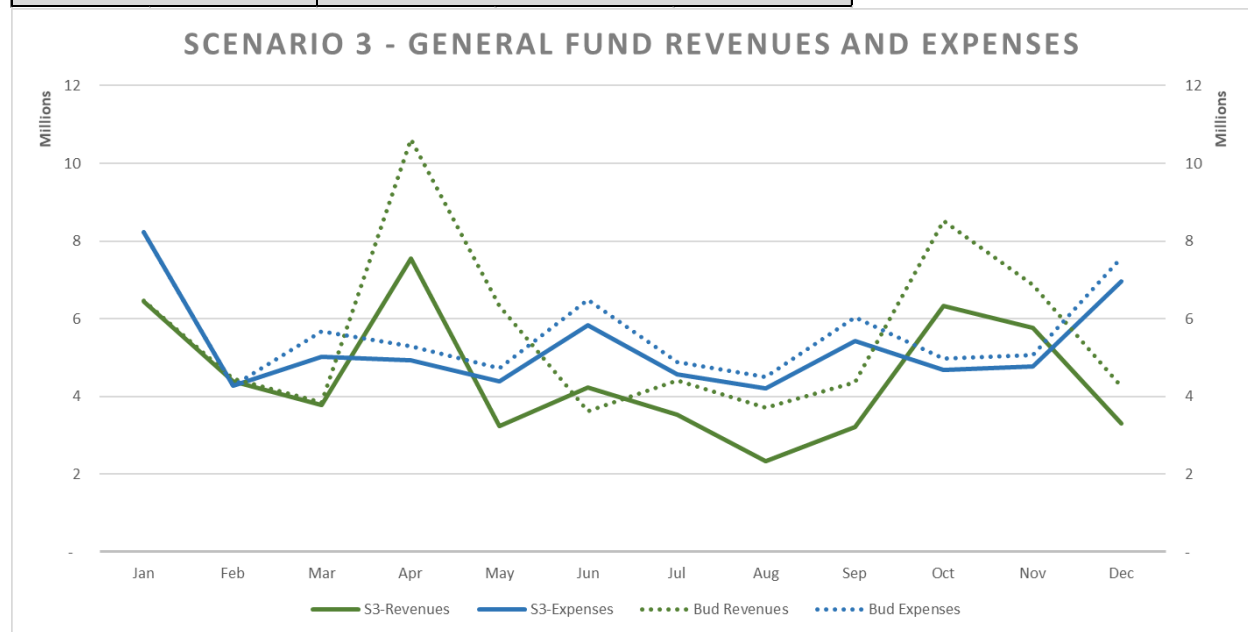


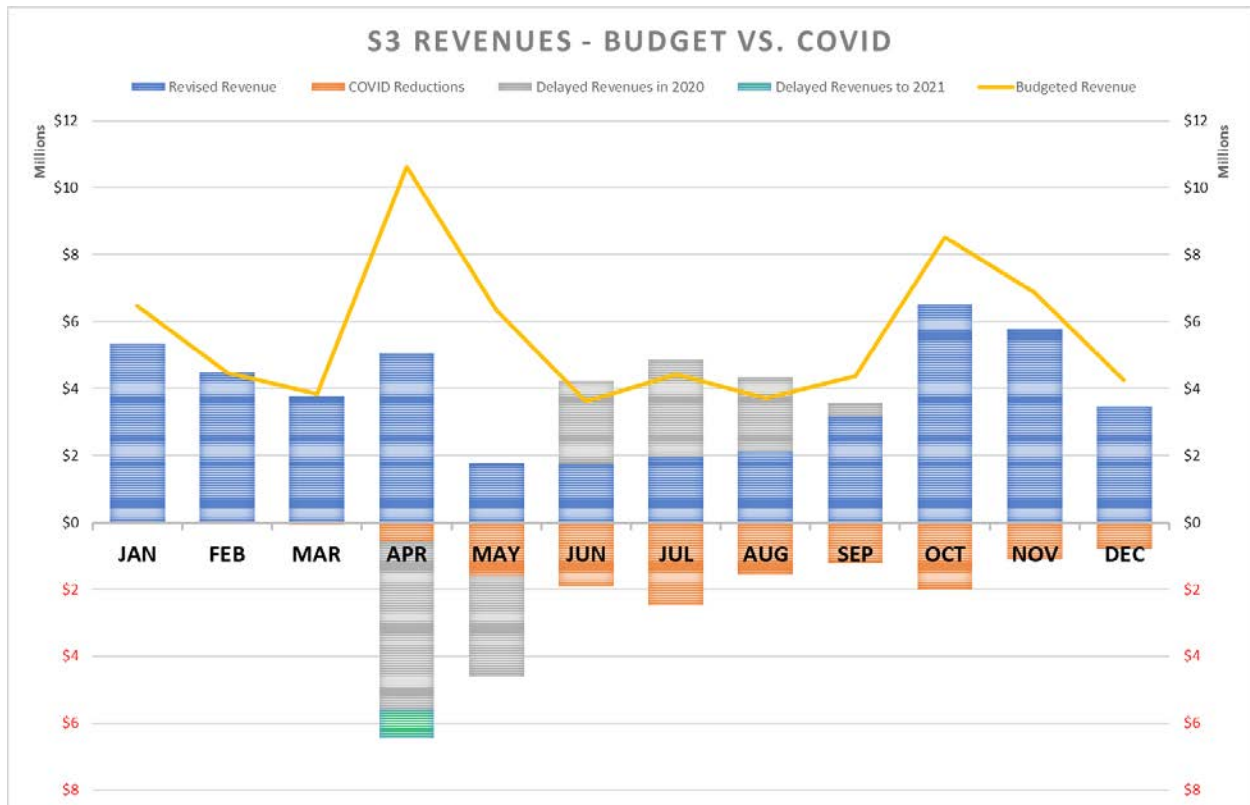
Scenario 3 – Stay at Home Order Extended into July:

- 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. <i>Adopted Budget: \$20,600,686</i> <i>Revised Budget: \$14,541,497</i> <i>Reduction of \$6,059,179</i>	Sales tax, along with admissions, and gambling taxes will be significantly impacted through June but will begin to grow in June. <i>Revised Budget: \$13,689,699</i> <i>Reduction of \$6,910,977</i>	Sales tax, along with admissions, and gambling taxes will be significantly impacted through the end of August but will begin to grow in September. <i>Revised Budget: \$11,660,178</i> <i>Reduction of \$8,940,498</i>
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. <i>Adopted Budget: \$16,416,911</i> No projected reduction in budget	We would still expect minimal defaults on property tax payments but there would be a cash flow issue. No projected reduction in budget	We would still expect minimal defaults on property tax payments but there would be a cash flow issue No projected reduction in budget
Casinos	Casinos could experience half the demand through summer and back to 80% by the end of the year. <i>Adopted Budget: \$4,274,000</i> <i>Revised Budget: \$2,927,106</i> <i>Reduction of \$1,346,894</i>	Casinos could experience half the demand through summer and into fall and back to 60% by the end of the year. <i>Revised Budget: \$2,530,205</i> <i>Reduction of \$1,743,795</i>	Due to the length of restrictions with this scenario, casinos would not open in 2020. <i>Revised Budget: \$1,755,057</i> <i>Reduction of \$2,518,943</i>
Admission Tax	Admission tax could remain low through summer and return to 80% of prior year by the end of the year. <i>Adopted Budget: \$870,000</i> <i>Revised Budget: \$589,548</i> <i>Reduction of \$280,452</i>	Admission tax will remain low through summer and return to 70% of prior year by the end of the year. <i>Revised Budget: \$518,274</i> <i>Reduction of \$351,726</i>	Admission tax will remain low through summer and return to 60% of prior year by the end of the year. <i>Revised Budget: \$495,910</i> <i>Reduction of \$374,090</i>
Utility Tax	During the closure order, utility tax revenue could be 20% below normal and returning to normal levels in the fall. <i>Adopted Budget: \$6,818,610</i> <i>Revised Budget: \$5,990,250</i> <i>Reduction of \$828,360</i>	During the closure order, utility tax revenue could be 20% below normal and returning to normal levels in the fall. <i>Revised Budget: \$5,894,713</i> <i>Reduction of \$923,897</i>	During the closure order, utility tax revenue could be 20% below normal and returning to normal levels in the fall. <i>Revised Budget: \$5,788,825</i> <i>Reduction of \$1,029,785</i>
Culture and Recreation	Programming revenue from the Tukwila Community Center will begin to provide some programming during the summer and fully open by September. <i>Adopted Budget: \$601,000</i> <i>Revised Budget: \$380,138</i> <i>Reduction of \$220,862</i>	Programming revenue from the Tukwila Community Center will begin to provide some programming during the summer and fully open by October. <i>Revised Budget: \$357,569</i> <i>Reduction of \$243,431</i>	Programming revenue from the Tukwila Community Center will begin to provide some programming during the summer but not return to normal in 2020. <i>Revised Budget: \$318,243</i> <i>Reduction of \$282,757</i>

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

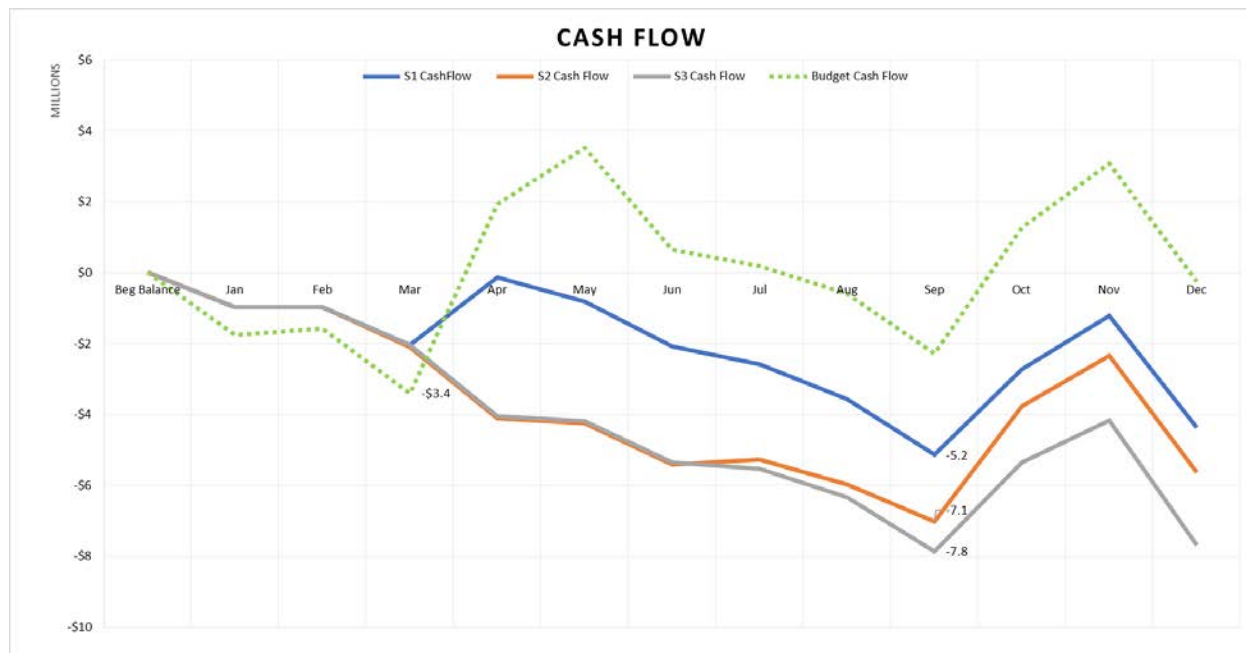
Loss of revenue without an equal offset in expenditure reduction will result in an impact to cash flows. The chart below demonstrates the impacts to cash flow for each of the 3

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.

INFORMATIONAL MEMO

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	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 \$190 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.

New Information for April 28, 2020 Finance Committee

Recap of Current Projected Revenue Gap

As discussed in the first five pages of this memo, the City identified an initial revenue gap (March through May) of \$6.1 million that has been filled with phase I reductions of \$4 million and are working with departments to identify an additional \$2.1 million to close the remaining gap. Departments are scrubbing their budgets and have already identified \$2 million, leaving a gap of just \$100 thousand.

There will be an additional revenue gap that needs to be closed. Three scenarios were developed resulting in additional revenue losses ranging from \$2.4 million up to \$7.1 million. Details of each of the scenarios can be found on pages 9 – 16 of this memo. Additional revenue gap for each scenario is as follows. The amounts below are in addition to the initial \$6.1 million revenue gap discussed above.

Scenario 1 - \$2.4 million + initial revenue gap \$6.1 = total revenue gap \$8.5

Scenario 2 - \$4.3 million + initial revenue gap \$6.1 = total revenue gap \$10.5

Scenario 3 - \$7.1 million + initial revenue gap \$6.1 = total revenue gap \$13.3

Given what we know today, Scenario 1 is most likely too optimistic. Based on economic indicators today, it is now believed, and is in line with what other area cities are projecting, that the actual revenue gap would be somewhere between Scenario 2 and Scenario 3, which would result in an additional revenue gap of around \$6 million, for a total revenue gap in 2020 of \$12 million.

Additionally, economic indicators point to a continuing loss of revenue in 2021 as well. At this time, we are projecting a revenue loss of \$6 million in 2021. Thus, the City will need to fill an additional gap of \$6 million in 2020, for a total gap of \$12 million with an ongoing budget shortfall of \$6 million in 2021; meaning ongoing budget reductions.

Decision Tree

On one extreme, the City could utilize only contingency funds to fill the gap in 2020. Given the current contingency fund balance of \$7.1 million (see page 19 for specifics on the contingency fund), this would leave \$1.1 million to fill a small portion of the revenue gap in 2021. This is not a recommended option as it leaves no contingency available for a second or third wave of infections that could hit later in 2020 or in 2021 nor would it leave funds for any other emergency that could arise.

The other extreme would be to reduce labor costs by \$6 million to fill the remaining revenue gap and not utilize contingency funds. While this would result in ongoing savings, this would result in significant loss of staff and significantly reduce the ability to provide services to our communities.

Rather, staff is recommending a balanced approach of matching contingency funds to labor reductions using a 3 to 1 ratio. This approach ensures that we stay true to our values of Caring, Professional, and Responsive. We are in this together and all departments need to share in the responsibility of reducing costs.

Decision Tree Tools

A more refined decision tree will be presented at the next Finance Committee meeting with the intent of identifying tools such as the following to close the gap:

- Voluntary retirements and separations
- Involuntary furloughs
- Voluntary furloughs
- Layoffs
- Voluntary pay reductions

Required Services and Current Service Levels

The City of Tukwila is a code city and operates under RCW 35A Optional Municipal Code. The Optional Municipal Code provides flexibility in the administration of municipal government and permits code cities to adjust procedures and programs to meet individual needs. The Code (RCW 35A) establishes the powers and responsibilities of councilmembers, the mayor, and city administrator. Other city officials have only such powers as the city council vest in them. This results in an increase in administrative choices available to code cities.

There are legal requirements regarding planning in the Growth Management Act and minimum staffing is necessary for development activities. There are relatively few mandates for code cities in the RCWs regarding minimum staffing and service levels except for police. Code cities are required to appoint a chief law enforcement officer pursuant to RCW 35A.12.020 and a city police department must be under the control and direction of the chief of police. However, neither the state constitution nor state law mandates a specific number of law enforcement officers or level of law enforcement services. Thus, staffing and service levels are policy decisions in the discretion of the City Council. If the City does not maintain their own police department, the County would be required to provide coverage.

There are no specific statutes that require cities to provide fire protection services or parks and recreation services. However, as a practical matter, cities provide some measure of these services.

Through long-standing Council policy, the City Council has set current service levels through policy decisions during the budget and budget amendment process. The current budget reflects priorities set by City Council and many of the programs included in the budget closely align with the City's adopted Strategic Goals.

Attached to this memo is the list of all programs in the general fund. Each program went through an extensive scoring process that benchmarked every program against the City's

Strategic Goals and basic program attributes. Tier 1 and Tier 2 programs most closely align with the Strategic Goals. All programs that are legally mandated either at the federal or state level are identified with an *. Many of the programs that have been identified as legally required are because of services the City provides. For example, because we provide fire services and employ firefighters, there are required trainings that all firefighters must complete on a regular basis.

Professional Services

Details on professional services for each department are detailed in the 2019 – 2020 Biennial Budget Document. During Phase II when departments were required to scrub their budgets, many budget categories were reduced, including professional services. It should be noted that some contracts in the professional services category cannot be reduced as they are legally required. For example, audit costs are captured in professional services and an annual audit is required per RCW. Details on professional services for each department in the general fund can be found on the following pages:

Department	Page Number(s)
City Council	89
Mayor’s Office	103 - 113
Municipal Court	124 – 125
Parks & Recreation	138 – 160
Community Development	171 – 182
Police	194 – 210
Fire	222 – 235
Public Works	248 – 260
Administrative Services	271 – 273
Finance	284
TIS	296

In addition to details on professional services, the chart on the following page summarizes all expenditures by major category in the general fund.

General Fund Expenditure by Type

General Fund Expenditures by Type									
	Actual			Budget			Percent change		
	2016	2017	Projected	2018	2019	2020	2018-19	2019-20	
			2018						
Salaries	\$ 26,737,878	\$ 27,618,116	\$ 27,573,806	\$ 28,802,303	\$ 29,395,996	\$ 30,296,521	2.8%	3.1%	
Extra Labor	827,034	653,502	735,473	754,693	762,833	784,697	1.1%	0.2%	
Overtime	1,519,183	1,513,455	1,854,443	1,872,035	1,350,099	1,354,099	-19.3%	0.3%	
Total Wages	28,883,894	29,785,074	30,163,722	31,029,031	31,508,928	32,415,317	1.6%	2.9%	
FICA	1,896,260	1,750,049	1,791,576	1,843,684	2,107,152	2,089,962	14.3%	-0.8%	
LEOFF 2	881,656	930,131	870,516	949,316	922,207	898,125	-2.9%	-2.6%	
PERS	1,385,867	1,512,991	1,662,654	1,610,013	1,751,659	1,802,555	8.8%	2.9%	
Industrial Insurance	678,200	634,001	699,271	941,170	861,416	934,877	-8.5%	8.5%	
Med, Dntl, Disability, Life	5,583,572	5,597,627	5,736,869	6,397,384	5,998,560	6,285,007	-6.2%	4.8%	
Unemployment	40,380	13,639	21,354	13,000	-	-	0.0%	0.0%	
Clothing Allowance	5,002	5,300	10,780	10,774	8,525	8,525	-20.9%	0.0%	
Total Benefits	10,270,937	10,443,738	10,793,021	11,765,321	11,649,519	12,019,052	-1.0%	3.2%	
Office Supplies	470,868	485,174	494,459	481,442	427,525	427,525	-11.2%	0.0%	
Small Tools & Minor Equip	108,922	149,000	92,020	97,318	163,569	133,569	68.1%	-18.3%	
Recreation Prog Supplies	112,235	19,782	29,242	31,800	37,000	37,000	16.4%	0.0%	
Fire Supplies	181,558	114,465	148,293	186,977	151,377	151,377	-19.0%	0.0%	
Street Maint Supplies	187,099	186,077	158,524	249,300	152,700	155,725	-38.7%	2.0%	
Other	342,562	327,204	306,864	261,285	325,485	308,485	24.6%	-5.2%	
Total Supplies	1,403,045	1,281,702	1,229,402	1,308,122	1,257,656	1,213,681	-3.8%	-3.6%	
Professional Services	2,776,466	3,304,744	3,570,408	3,602,177	3,202,495	3,144,965	-11.1%	-1.8%	
Communication	407,476	400,826	471,069	436,370	434,600	434,600	-0.4%	0.0%	
Travel	143,012	168,236	169,103	189,880	159,630	159,630	-15.9%	0.0%	
Advertising	24,222	26,652	39,251	51,500	47,550	47,550	-7.7%	0.0%	
Operating Rents & Leases	294,737	478,425	508,455	485,670	466,130	466,230	-4.0%	0.0%	
Equipment Replacement	402,893	166,014	567,068	166,014	667,012	166,014	301.8%	-75.1%	
Equip Operations & Maint	1,139,405	1,411,723	1,841,816	1,655,686	1,783,643	1,784,020	6.5%	1.2%	
Insurance	810,799	888,997	976,416	976,992	1,005,775	1,047,762	2.9%	4.2%	
Utilities	1,828,751	1,915,730	1,992,419	1,928,305	1,999,424	2,089,101	3.7%	3.5%	
Repairs and Maintenance	850,278	662,275	584,152	807,488	623,150	587,912	-22.8%	-5.7%	
Miscellaneous	832,886	830,505	1,038,883	1,114,473	888,637	890,637	-20.3%	0.2%	
Claims & Judgements	160,514	89,100	334,702	382,000	320,000	320,000	-16.2%	0.0%	
Credit Card Fees	38,845	58,078	40,458	70,081	43,081	43,081	-38.5%	0.0%	
Other	8,814	6,398	0	6,500	4,250	4,250	-34.6%	0.0%	
Total Services	9,719,099	10,407,700	11,934,200	11,873,136	11,625,377	11,165,751	-2.1%	-4.0%	
SCORE Jail	1,310,736	1,466,963	1,579,506	1,633,405	1,626,355	1,675,146	-0.4%	3.0%	
Valley Communications	1,034,820	1,111,663	1,137,420	1,184,817	1,184,253	1,219,491	0.0%	3.0%	
Animal Control	108,136	111,892	55,564	118,852	125,000	131,250	5.2%	5.0%	
Other	244,655	251,070	248,217	254,050	286,758	293,117	12.9%	2.2%	
Total Intergovernmental	2,698,347	2,941,588	3,020,707	3,191,124	3,222,366	3,319,004	1.0%	3.0%	
Machinery and Equipment	798,601	117,679	76,589	30,000	240,000	270,000	700.0%	12.5%	
Total Capital	798,601	117,679	76,589	30,000	240,000	270,000	700.0%	12.5%	
Total Dept. Expenditures	53,773,922	54,977,481	57,217,642	59,196,734	59,503,846	60,402,805	0.6%	1.6%	
Transfers - Debt Svc Funds	2,874,831	2,773,452	3,378,914	5,848,580	4,033,861	3,587,190	-31.0%	-11.1%	
Transfers - Capital, Other	1,451,000	2,564,044	1,588,190	3,622,000	2,269,600	1,621,950	-37.3%	-28.5%	
Transfer - Contingency	433,682	180,715	92,672	-	58,568	210,000	0.0%	258.6%	
Total Expenditures	\$ 58,533,435	\$ 60,495,692	\$ 62,277,417	\$ 68,667,314	\$ 65,865,875	\$ 65,821,945	-4.1%	-0.1%	

Possible Next Steps for Council

- May 4, 2020: confirmation from Council that, based on what we know today, the revenue gap for 2020 is \$12 million and a continuing revenue gap of \$6 million in 2021; meaning ongoing budget reductions.
- May 11, 2020: Decision on tools to be used in the decision tree to close the revenue gap.

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

Updated Recommendation: Council consensus on 2020 revenue gap scenario of \$12 million with a continuing revenue gap of \$6 million in 2021 and discussion of tools that may be used to close the gap.

ATTACHMENTS

Resolution #1919 – Reserve Fund Policy
2019 – 2020 Biennial Budget Document Programs by Department (pages 452 – 457)

Exhibit B

Memo to the City of Tukwila Finance Committee
Decision Tree for Financial Impacts of COVID-19



INFORMATIONAL MEMORANDUM

TO: Finance Committee

FROM: Vicky Carlsen, Finance Director

CC: Mayor Ekberg

DATE: May 6, 2020

**SUBJECT: Decision Tree for Financial Impacts of COVID-19
Updated for May 18, 2020 Regular Meeting**

ISSUE

Decision tree for use in responding to the financial impacts of the COVID-19 pandemic. Affirm estimated revenue gap of \$12 million in 2020 and \$6 million in 2021 via resolution, approve resolution for temporary wage reduction for non-represented staff.

DISCUSSION

Recap of Current Projected Revenue Gap

As discussed in the first five pages of the attached memo, the City identified an initial revenue gap (March through May) of \$6 million that has been filled with phase I reductions of \$4 million, with departments currently working to close the remaining gap. Departments have been scrubbing their budgets and have closed the remaining gap as of May 6, 2020.

There is an additional revenue gap of \$6 million for the remainder of the year that needs to be addressed, bringing the total 2020 revenue gap to \$12 million.

Additionally, economic indicators point to a continuing loss of revenue in 2021 as well. At this time, we are projecting a revenue loss of \$6 million in 2021. Thus, the City will need to fill a total revenue gap of \$12 million in 2020 and a revenue gap of \$6 million in 2021; meaning ongoing budget reductions. The 2021 revenue gap can be addressed via the biennial budget process, with some of the strategies identified for 2020 to be carried forward as appropriate.

Affirmation of Revenue Gap, Tools for Decision Tree

Included as an attachment is a draft Resolution affirming the estimated revenue gap of \$12 million in 2020 and \$6 million in 2021, and authorizing the Mayor, city Administrator, or Designee, to implement various cost-saving measures to address revenue shortfalls due to the COVID-19 pandemic. The draft Resolution identifies voluntary retirements and separations, reductions in workforce through attrition, furloughs, layoffs, pay reductions, and/or reductions in operating and office hours, closure of offices or departments or reductions in levels of operations or services, as needed. The Mayor, City Administrator,

and Staff will continue to collaborate and communicate with the City Council as to what actions will be taken based on collective bargaining negotiations currently underway with the City's labor partners.

Decision Tree

For purposes of discussing tools that can be utilized in the decision tree to close the revenue gap, the tools are grouped into two buckets: labor and non-labor. As a reminder, any changes to wages, hours, and working conditions must be bargained with labor partners. Based on discussion at the May 4, 2020 Committee of the Whole, the following tools were identified that can be utilized to close the gap in both 2020 and 2021.

Tools for Decision Tree	Comments
Labor	
Voluntary pay reduction	Department Directors have volunteered to the end of 2020.
Layoffs	Considered to be long-term and could be budgeted in 2021-2022. Layoffs would typically be used for service level reductions or to follow collective bargaining agreement (CBA) language. Would result in unemployment costs to the City
Voluntary and involuntary furloughs	Considered to be short-term, and impacted employees could be reinstated by the end of 2020 or when workloads return to normal. Would result in unemployment costs to the City
Voluntary retirements and separations	Would result in long-term savings only if vacated position remains unfilled/frozen
Early retirement incentive	Would result in long-term savings only if vacated position remains unfilled/frozen
Hiring freeze	Results in savings only as long as the position remains vacant
Reduced work hours per week/pay reduction	Should not result in unemployment costs to the City
Reduce overtime	Some CBAs contain provisions for overtime in certain instances and some overtime is reimbursable.
Voluntary leave without pay	Depending on length of leave, could result in unemployment costs to the City
Attrition	Freezing positions that have been vacated through attrition. Savings only realized if positions remains vacant
Non-Labor	
Eliminate travel and non-essential training	No additional comments
Reduce/eliminate transfers to capital project funds	Would affect capital projects that do not have a dedicated revenue source
Reduce department budgets by program or type of expenditure	No additional comments

Reduce transfers to Fleet fund	There is currently an adequate fund balance in the Fleet fund. Any reductions in transfers would be one-time in nature. Schedule for replacing certain vehicles would need to be reviewed and updated as needed in order to maintain a positive fund balance. Fleet purchases scheduled for this year are being reviewed and will be moved to next year when possible
Contingency fund	Contingency fund use is one-time in nature and, per Resolution No. 1919, must be repaid within a reasonable time frame
Interfund loan	Would need to be repaid and include a reasonable interest rate. An example would be the sewer utility loan to the general fund
Service level adjustments	Changes in service levels are policy decision that are set by Council, typically through the budget or budget amendment process

Also included as an attachment is a document published by Government Finance Officers Association. The document identifies short-term strategies that can be implemented in order to maintain a balanced budget. Most of the tools listed in the document are included in the chart above.

Parameters for Decision Tree

In order to close the revenue gap in both 2020 as well as 2021, the following parameters are offered:

- Reductions should be proportional and equitable across departments and labor groups as applied to programs identified through the priority-based budgeting process
- Revenue gap in 2021 can be closed by continuing the use of some tools into next year as determined by City Council via setting the 2021-2022 biennial budget
- Changes in service levels are policy decisions that are best made through the upcoming budget process
- Appropriate mix of reductions in labor costs with contingency funds
- Contingency fund use is one-time and, per adopted policy, must be repaid within a reasonable time
- Early retirement incentives could be a tool utilized to close the revenue gap in 2021

Non-Represented Staff

To achieve budget savings towards the projected \$12 million revenue shortfall, one tool available to the City is to implement a temporary wage reduction of non-represented staff effective June 1, 2020 through December 31, 2020. Staff is recommending a 10% base wage reduction for Administrative Team Members (listed below) and the use of 14-furlough days for the rest of the non-represented positions which is roughly equal to a 10% wage reduction and work hours. Savings is estimated to be approximately \$337 thousand.

- City Administrator
- Deputy City Administrator
- Public Works Director
- Police Chief
- Fire Chief
- Parks & Recreation Director
- Technology Services Director
- Finance Director
- DCD Director
- Human Resources Director
- Economic Development Administrator
- Municipal Court Administrator

The difference in the 10% wage reduction for Administrative Team members and other non-represented positions taking furlough days is to ensure continued compliance with Fair Labor Standards Act rules regarding overtime. To maintain FLSA Exempt status (not be required to pay overtime) the temporary percentage wage reduction for the next seven months for the Administrative Team members allows them to continue to receive a set salary regardless of the number of hours worked. The other FLSA Exempt non-represented positions will be temporality changed to a FLSA non-exempt hourly pay status and take the 14 furlough days to reduce their pay by 10% and work the commensurate hours associated with the pay reduction. Details of how the furlough time would be implemented is being worked out by a small group to ensure City services and continuity during this time.

A second draft resolution, which implements these cost-saving measures for non-represented staff, is attached to this memo.

Department Budget Scrub

Departments were asked to scrub their budgets to offer a list of additional reductions for 2020. The chart on the next two pages lists reductions by department that were identified through the budget scrub exercise and has been updated with reductions identified as of May 6, 2020. The table below indicates budget reductions, by program for each department. It does not include reductions in overtime, travel and non-essential training, or furloughing of part-time positions as those reductions were captured in Phase 1, immediate reductions.

In addition to the chart on the next two pages, the 2019-2020 Biennial Budget Program by Department attachment has been updated to reflect those programs that are reduced through the department budget scrub. Each affected program is highlighted in yellow.

INFORMATIONAL MEMO

Page 5

Reductions by Department/Program	Reduction	Effects of Reductions
Mayor		
Employee Recognition	10,750	Cancellation of all remaining employee recognition events for 2020
Organizational Dev. & Training	14,519	Cancellation of misc. staff development training
Professional Services	5,500	Reduction of non-essential services
Economic Development		
City Policy Development	3,300	Delaying economic development plan
City Clerk		
Records Management	15,000	Reduce document digitization efforts
Total Reductions from Mayor's Department	49,069	
Administrative Services		
Human Resources		
Labor Relations	12,500	Reduce prof svcs for labor relations and investigations and advertising
Community Svcs & Engagement		
Community Engagement	17,500	Reduced funding for Community Connectors program, advertising, and communications
Total Reductions from Administrative Services	30,000	
Finance		
Insurance & Risk Management	90,000	Reduced liability insurance in 2020 and claims & judgements
Budget Preparation	25,000	Remove budgeted cost of budget software
Total Reductions from Finance	115,000	
Recreation		
Organizational Support	57,408	Reduce maintenance project work,
Planning & Development	7,000	Discontinue Rec guide for 2020, discontinue professional development training
Wellness & Enrichment	16,960	Prof svcs contracts, supplies for programs
Front Desk	9,950	Supplies, credit card charges, armored car svcs
Events	41,299	Supplies and services contracts
Preschool	2,600	Reduced costs due to program closures
Senior Services & Programs	4,503	Reduced costs due to program closures
Teen	17,980	Removed all trips with admissions costs, reduced costs due to program closures, cancelled winter open gym
Youth	44,602	Removed all outings and pool trips, reduced costs due to program closures
Volunteer Services	500	Cancelled volunteer appreciation event
Facility Rentals	10,950	Reduced supplies due to closure
Administration	6,000	Supplies reduced
Total Reductions from Recreation	219,752	
Parks		
Parks	32,902	Utilities, supplies, small tools & equipment
DCD		
Permit Intake and Coordination	3,500	Reduced operation supplies and training
Current Planning	12,369	Reduced extra labor - student intern fuloughed
Const. Permit Review & Inspection	400	Reduced operational expenses
Comp. Plan Implementation	34,486	Professional Services contracts suspended
Code Enforcement	400	Reduced training
Administration	9,875	Reduced operation supplies and training
Total Reductions for DCD	61,030	
Court		
Multiple programs	51,602	Court is legally required to manage a variety of cases within strict time limits and process standards. Current budget reductions are, in general, negatively impacting the court and further cuts could prove critical - especially since demand for court services will absolutely increase.

INFORMATIONAL MEMO

Reductions by Department/Program	Reduction	Effects of Reductions
Police		
Department Training Program	38,000	While all legally mandated training and certifications will still occur, professional advancement and train-the-trainer type training will be reduced. Will impact nearly all PD teams: Patrol, Investigations, etc.
Evidence & Property Mgmt.	14,318	Will require PD to move all items being stored in the off-site Evidence facility to another location, most likely the new PD facility or back to 6200 if the new construction isn't ready yet.
Community Policing Team & Police Patrol Services	135,428	
Quartermaster	20,000	Will reduce supplies and tools for PD teams, including: Patrol, CPT, Investigations, etc.
Police K9 Program	30,000	The PD will forgo the acquisition of a tracking K9 in 2020
Narcotics & Street Crimes Team (TAC)	5,000	Our covert employees will reduce their number of rental vehicles, which will impact their ability to swap out "burned" cars.
PD Fitness Initiative	2,600	Will eliminate employee health and fitness initiatives as well as any Department training scheduled for the space.
Total Reductions for Police	245,346	
Fire		
Administration	6,000	Subscriptions, dues
Logistics	28,000	Supplies in fire stations, SCBA, chain saws
Special Projects/Tasks	8,000	No S/H meetings, hearing tests
Training Received	5,500	Remove rescue team training
Fire Prevention Administrative	2,000	Reduce training
Emergency Mgmt. Assist Team	30,000	EM office reduce purchases
Total Reductions for Fire	79,500	
TIS		
End User Infrastructure Service	75,000	Delay refresh of laptops. Cost would be pushed into 2021. This is potential cost savings in the interim. Still in negotiations
Vendor Management	12,500	Remove Vendor Info. Tech
Network Infrastructure Services	36,000	Delayed Voice PBX by 1 year
GIS Services	36,500	ESRI Budget reduction
Total Reductions for TIS	160,000	
Public Works		
Facility Cleaning/Custodians	50,000	Defer maintenance repairs of City-owned facilities
Street (Public Works)		
Video & Fiber	15,000	Defer maintenance of City-owned cameras
Transportation	35,000	Defer maintenance of roadway/sidewalk repairs
Total Reductions for Street Department	50,000	
Fleet Transfers		
O&M	892,010	Reduction of fleet transfers affects all departments in the general fund that have fleet vehicles.
Capital	83,007	Transfers draw down the Fleet fund, which currently has a healthy fund balance
Total Fleet Reductions	975,017	
Grand Total Reductions Achieved through Budget Scrubs	2,119,218	

Suggested Approach to Closing the Revenue Gap

The chart on the following page provides one option to close the gap for 2020 and are estimates until departments complete budget scrubs and negotiations with labor groups are completed. This is a high-level summary that includes many of the tools listed above. It should be noted that this model shows the use of contingency funds in two places. First, as a 3:1 match for reduction in labor costs. Second, as additional funds needed to balance 2020. Any additional reductions by labor groups or department scrubs would result in less contingency funds needed to balance 2020. Each labor group may choose to participate in a different way. For example, one labor group will achieve their

proportional share of reductions by holding positions vacant, while another may opt for reduced work week rather than layoffs.

Estimated FY 2020 Gap to Fill	12,000,000
Phase I	
Hiring freeze for current vacant positions	(1,600,000)
All travel, non-essential training cancelled	(140,000)
Furlough part-time staff	(150,000)
No overtime unless authorized by Mayor	(910,000)
Transfers to capital project funds eliminated	(1,200,000)
Total Phase I Reductions	(4,000,000)
Phase II	
Department Budget Scrub	(2,100,000)
Phase III	
Furlough days/pay reduction (non-represented)	(382,000)
Potential Furlough Days (labor group)	(700,000)
Contingency Match for Labor	(3,246,000)
Total Phase III Reductions	(4,328,000)
Total Reductions: Phases I, II, and III	(10,428,000)
Additional Contingency Funds to Balance	(1,572,000)
Remaining Gap to Fill	-
Total Contingency Funds Available	7,099,000
Used in 2020	(4,818,000)
Balance Available for 2021	2,281,000

In order to close the estimated revenue gap of \$6 million in 2021, policy decisions on service levels would occur through the 2021-2022 budget process during the summer and fall months of 2020.

Interfund Loan

At the May 11, 2020 Committee of the Whole meeting, information was requested regarding the use of an interfund loan in lieu of utilizing, or reducing the use of, contingency funds to close the revenue gap.

Interfund loans are permissible and can utilize funds which are clearly inactive or are in excess of anticipated cash needs throughout the duration of the loan and are legally available for investment. Any borrowings from one fund to another fund should be stipulated in a resolution or ordinance that specifies the terms of the loan including

repayment schedule and a reasonable interest rate (based on the external rate available to the City). Repayment terms of the loan may continue over a period of more than one year, however, a loan that continues longer than three years will be scrutinized by auditors for possible permanent diversion of funds. Because an interfund loan is strictly an internal funding mechanism, there are no costs to initiate the borrowing. The loan can be repaid earlier if funds are available. Any early repayment would reduce the total interest cost.

The last posted investment rate in the Local Government Investment Pool (LGIP) is for April 2020, and reflects a net earnings rate of 0.55%. The current prime lending rate is currently 3.25%.

Repayment terms would need to be identified in order to accurately determine the amount of interest paid over the life of the loan. However, in order to provide some idea of interest cost for an interfund loan, the following examples are provided using the following criteria:

- Amount of loan = \$4,818,000 (utilizing interfund loan rather than contingency funds)
- Annual installments
- Simple interest calculation on outstanding principal

Total interest over the life of the loan (rounded):

Length of Loan	0.55% LGIP	3.25% Prime Lending
3 year repayment schedule	\$53,000	\$313,000
5 year repayment schedule	\$79,000	\$470,000
10 year repayment schedule	\$146,000	\$861,000

RECOMMENDATION

Council is being asked to approve the two Resolutions and consider them at the May 11, 2020 Committee of the Whole meeting and subsequent May 18, 2020 Regular meeting.

ATTACHMENTS

- Informational Memorandum – Budget Impacts due to COVID-19 Pandemic dated March 31, 2020 and most recently updated May 11, 2020
- Resolution #1919 – Reserve Fund Policy
- 2019 – 2020 Biennial Budget Document Programs by Department (pages 452 – 457)
- Cash is King: Short-Term Strategies to Slow the Flow of Money out the Door and Keep the Budget Balanced
- Draft Resolution – Non-Represented Staff
- Draft Resolution – Affirming Revenue Gap, Tools for Decision Tree